# State of Delaware

## Comprehensive Annual Financial Report

**For the Year Ended June 30, 2004**

STATE OF DELAWARE
OFFICE OF THE GOVERNOR

RUTH ANN MINNER
GOVERNOR

November 30, 2004

To the People of Delaware
and the Honorable Members of the
143rd General Assembly

I am pleased to submit the State of Delaware's Comprehensive Annual Financial Report for fiscal year 2004. In addition to providing sound information for policymakers and legislators, this all-inclusive financial report is designed to encourage taxpayers to understand their state government's financial activities.

Included herein are the State's Basic Financial Statements, prepared in conformity with Generally Accepted Accounting Principals (GAAP) and audited by KPMG LLP.

Delaware's economic and fiscal conditions remain sound as the enclosed report demonstrates. The state's long history of prudent financial management and sound fiscal controls has allowed the State to weather the recent national economic challenges. These efforts helped Delaware remain one of only seven states to hold the nation's highest bond ratings –Aaa from Moody's Investment Service, AAA from Fitch Ratings and AAA from Standard & Poor's –signifying its place among the most creditworthy states in the nation.

I am proud to report that we have effectively managed the economic and fiscal challenges that have confronted us through the end of fiscal year 2004 and will continue to do so in fiscal 2005 and beyond. As we face these challenges, I am confident that Delaware will continue its long tradition of prudent financial management.

Sincerely,

Ruth Ann Minner

Ruth Ann Minner
Governor

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# State of Delaware

## Comprehensive Annual Financial Report

For the Year Ended June 30, 2004

**Ruth Ann Minner**

**Governor**

**David W. Singleton**

**Secretary of Finance**

**Trisha L. Neely**

**Director, Division of Accounting**

Prepared by the Department of Finance, Division of Accounting

# State of Delaware
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On the cover:

**The Flag of the State of Delaware** Adopted on July 24, 1913, the state flag has a background of colonial blue surrounding a diamond of buff color in which the coat of arms of the state of Delaware is placed. Below the diamond are the words "December 7, 1787," indicating the day on which Delaware was the first state to ratify the federal Constitution. Because of this action, Delaware became the first state in the Union, and is, therefore, accorded the first position in such national events as presidential inaugurations. According to members of the original commission established to design the flag, the shades of buff and colonial blue represent those of the uniform of General George Washington as shown on a specific plate from an official U.S. Army publication.

Photo courtesy of Gary Bish, Director of Management Efficiency, Division of Accounting, Department of Finance.

State of Delaware
Comprehensive Annual
Financial Report

# Introductory Section

STATE OF DELAWARE
DEPARTMENT OF FINANCE
OFFICE OF THE SECRETARY

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November 30, 2004

The Honorable Ruth Ann Minner, Governor
Members of the Legislature
Citizens of Delaware

It is my pleasure to present the 2004 Comprehensive Annual Financial Report (CAFR) for the State of Delaware. The report for the fiscal year ended June 30, 2004 has been prepared in accordance with generally accepted accounting principles (GAAP) applicable to state and local governments, as prescribed by the Governmental Accounting Standards Board (GASB). The State also voluntarily follows the recommendations of the Government Finance Officers Association of the United States and Canada (GFOA) for the contents of government financial reports, and participates in the GFOA's review program for the Certificate of Achievement for Excellence in Financial Reporting.

The Department of Finance is responsible for accuracy of the data, as well as the completeness and fairness of the report's presentation, including all disclosures. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is presented in a manner that fairly reports the State's financial position, results of operations, and changes in net assets/fund balances. All disclosures necessary to enable the Governor, members of the General Assembly, the public and the financial community to fully understand the State's financial activities are included.

The CAFR is presented in three major sections: introductory, financial and statistical.

- The introductory section includes this letter, a list of key State officials, the State's organizational chart and the Certificate of Achievement for Excellence in Financial Reporting for the June 30, 2003 CAFR.

- The financial section includes: the independent auditor's report on the Basic Financial Statements; Management's Discussion and Analysis (MD&A); Basic Financial Statements (Government-Wide Financial Statements, Fund Financial Statements and notes) and other Required Supplementary Information.

- The statistical section includes selected financial, economic and demographic information, presented on a multi-year basis.

GASB Statement Number 34 requires that management provide a narrative introduction, overview and analysis to accompany the Basic Financial Statements in the form of the MD&A. This letter is intended to complement the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the report of the Independent Auditors.

## PROFILE OF THE GOVERNMENT

Delaware is located on the eastern seaboard of the United States and is bordered by the Atlantic Ocean, the Delaware Bay and the states of New Jersey, Pennsylvania and Maryland. The State is 96 miles long and has a land area of 1,955 square miles. Over 818,000 people reside here. As the first state to ratify the Unites States Constitution on December 7, 1787, Delaware is known as “The First State.” The structure of Delaware’s government, which is similar to other states, consists of three branches that operate through a system of checks and balances. The executive branch is comprised of the Governor, Lt. Governor, State Treasurer, State Auditor, Attorney General and Insurance Commissioner. The legislative branch is bicameral and consists of a 21-member Senate and a 41-member House of Representatives. The judicial branch includes the Supreme Court, Superior Court, Court of Chancery, and other courts.

The State of Delaware reporting entity reflected in the CAFR, which is described more fully in Note 1 to the basic financial statements, conforms with the requirements of GASB Statement Number 14, The Financial Reporting Entity. Further, Statement Number 14 provides that the financial statements should emphasize the primary government and permit financial statement users to distinguish between the primary government and its component units. Consequently, the transmittal letter, MD&A, and the financial statements focus on the primary government and its activities. Although information pertaining to the discretely presented component units is provided, their separately issued financial statements should be read to obtain a complete overview of their financial position.

The State budgets and controls its financial activities on the cash basis of accounting during its fiscal year. In compliance with State law, the State records its financial transactions in either of two major categories – the budgetary General Fund or budgetary Special Funds. References to these funds in this document include the terms "budgetary" or "budgetary basis" to differentiate them from the GAAP funds of the same name which encompass different funding categories. Because GAAP fund definitions for accounting purposes differ from those of the budgetary basis General and Special Funds, the GAAP funds are fully explained in Note 1 to the basic financial statements.

The budgetary General Fund provides for the cost of the State's general operations and is credited with all tax and other revenue of the State not dedicated to budgetary Special Funds. All disbursements from the budgetary General Fund must be authorized by appropriations of the General Assembly.

Budgetary Special Funds are designated for specific purposes. The appropriate budgetary Special Fund is credited with tax or other revenue allocated to such fund and is charged with the related disbursements. Examples of specific uses of budgetary Special Funds include State park operations and fees charged by the Public Service Commission and the Division of Professional Regulation. Federal payments, unemployment compensation and local school funds are examples of non-appropriated Special Funds. Some Special Funds, such as the Delaware State Housing Authority and the State Pension Office, contain both appropriated funds for operations and non-appropriated funds for specific programs, such as public housing and pension benefits.

Federal funds, which are credited to budgetary Special Funds, are not appropriated, but are subject to the review and approval of the State Budget Office and the Delaware State Clearinghouse Committee for Federal Aid Coordination. The Committee is comprised of 10 members, including the Secretary of Finance, Budget Director, Director of the Delaware Economic Development Office, the Controller General, and six legislators.

**Budgetary Control and Financial Management Systems**

Disbursements are controlled by an encumbrance accounting system designed to provide information on the actual extent of the State's obligations and guard against over-committing available funds. Appropriations are reduced immediately when purchase orders are issued for goods and services. The total amount of budgetary General Fund cash disbursements, plus unliquidated encumbrances, cannot exceed the amount appropriated by the General Assembly for any specific budgetary line items by Department.

Although the majority of the State's financial transactions are processed through the State's primary accounting system, certain Special Funds have financial activity external to that system, such as the Transportation Trust Fund, the Delaware State Housing Authority and Delaware State University. This activity is governed in strict adherence to legislative regulations and guidelines established by their boards. In addition, these entities are audited annually and produce published financial reports.

**Budget Process**

In the fall of each calendar year, State agencies submit requests for operating and capital funds for the next fiscal year to the Budget Office, and public hearings are held to review the requests. The Governor's proposed operating and capital budgets for the General Fund and Special Funds, including the Transportation Trust Fund, are then drafted and presented by the Governor to the General Assembly in January. The General Assembly's Joint Finance and Bond Bill Committees hold hearings and mark up the Governor's proposed operating and capital budgets. As amended, the budgets are expected to be enacted prior to July 1.

## Appropriation Limit

The State Constitution limits annual appropriations by majority vote of both houses of the General Assembly to 98% of estimated budgetary General Fund revenue plus the unencumbered budgetary General Fund balance from the previous fiscal year. An exception to this limit may be made in the event of a declared emergency, with the approval of a three-fifths vote of the members of each house of the General Assembly. No appropriation may be made which exceeds 100% of estimated budgetary General Fund revenue plus the unencumbered General Fund balance from the previous fiscal year.

## Tax Limitations

The State Constitution was amended in May 1980 to limit tax and license fee increases or the imposition of any new taxes or fees. Any tax or license fee increase or the imposition of any new tax or license fee must be passed by a three-fifths vote of each house of the General Assembly, rather than by a simple majority vote, except for tax increases to meet debt service on outstanding obligations of the State for which insufficient revenue is available when such debt service is due.

## Revenue and Expenditure Forecasting

The Delaware Economic and Financial Advisory Council (DEFAC), an entity created by executive order in 1977, is required to submit revenue forecasts for the budgetary General Fund and Transportation Trust Fund to the Governor and the General Assembly. An integral part of the State's budget process, the committee is comprised of 34 members, appointed by the Governor, from the executive and legislative branches of State government and the private sector.

DEFAC prepares revenue estimates six times each fiscal year in September, December, March, April, May and June for the current fiscal year and the succeeding two fiscal years. A revenue forecast for the current fiscal year and the succeeding four fiscal years is generated once each year, generally in September. Budgetary General Fund and Transportation Trust Fund expenditure forecasts are generated for the current fiscal year in December, March, April, May and June.

The revenue and expenditure forecasts are used in the State budget process to ensure State compliance with the State's constitutional limits on spending and statutory debt limitations. In addition, DEFAC advises the Governor and General Assembly on economic conditions in the State and advises the Governor and the Secretary of Finance on tax policy. DEFAC meetings are open to the public and provide a general forum for members of the public and private sectors to exchange views on matters of economic and fiscal concern for the State.

**Strong Financial Management**

Delaware's long tradition of tightly managed finances and a premier credit standing has been recognized by AAA bond ratings. Four principles form the core of this approach: 1) controlling base budget growth; 2) developing sound and responsible tax policy; 3) financial flexibility; and 4) maintaining sizable cash balances in reserve.

Beginning in fiscal year 2000, the three principal rating agencies, Moody's Investors Service, Fitch Ratings and Standard & Poor's, have rated Delaware's General Obligation bonds Aaa, AAA and AAA, respectively. Due to the quality of the State's financial management, manageable debt burden and above-average wealth, and income levels, these ratings were reaffirmed in both bond issuances during fiscal year 2004.

## ECONOMIC CONDITIONS AND OUTLOOK

Since 2000, Delaware's economy has largely tracked the national economy's performance. The economic slowdown that started in 2001 did not see broad-based recovery until relatively recently. Delaware is participating fully in the national economic recovery and is expected to add to the gains made during the 1990's.

As of November 2004, the total number of business entities registered with the Division of Corporations passed the 625,000 mark for the first time. More than 9,000 new business entities registered during October, marking the 14th consecutive month in which the number of new filings surpassed the same month in the prior year. The principal driver of this growth is alternative entities, such as limited liability corporations.

According to August 2004 data, the state's personal income, the majority of which consists of labor and proprietor's income, grew by 3.7% from 2002 to 2003, compared with 2.9% for the Mid-east region and 3.4% for the nation. Total state personal income in 2003 was $26.8 billion.

Delaware was once regarded primarily as a manufacturing state with high concentrations of employment in chemicals and automobile manufacturing. Over the last two decades, however, strong FIRE (finance, insurance and real estate) and service sectors have transformed Delaware's economy to the point at which its employment base is more similar to the U.S. economy. In fact, Delaware is now less reliant on manufacturing than the typical state with 8.6% of its 2003 employment base in manufacturing vs. 11.2% for the nation. Delaware's high-tech and white-collar focus is evident with its relatively high concentration of employment in financial, professional and business services.

Delaware's success in transforming its economy is confirmed by a broad array of measures. In addition to the State's record of strong income and population growth, Delaware's rates of homeownership and educational attainment are among the highest in the nation. Its unemployment and poverty rates are among the nation's lowest. Moreover, and perhaps unique to the State, Delaware has achieved these milestones while maintaining what is among the

nation's most desirable business climates, especially among its neighbors in the high-cost northeast corridor.

## INDEPENDENT AUDIT

The State of Delaware's June 30, 2004 Basic Financial Statements have been audited by KPMG LLP, an independent public accounting firm. The auditors' report is included in the financial section of this CAFR.

The State Auditor of Accounts performs periodic financial and compliance audits of the various State departments, agencies and institutions of higher education. Additionally, KPMG LLP has primary responsibility for conducting audits under the federal Single Audit Act of 1986, as amended. Results of these audits may be found in separately issued audit reports and may be obtained by contacting the Office of Auditor of Accounts, the Townsend Building, Suite #1, 401 Federal Street, Dover, DE 19901.

## CERTIFICATE OF ACHIEVEMENT

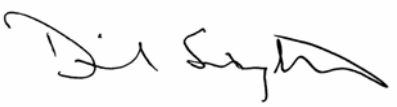
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Delaware for its comprehensive annual financial report for the fiscal year ended June 30, 2003. This is the ninth consecutive year that the State has received this prestigious award. To be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such a report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year. We believe our current report continues to meet the Certificate of Achievement program requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

## ACKNOWLEDGEMENTS

The preparation of this Comprehensive Annual Financial Report was made possible by the support of all State agencies and component units that supplied data. I wish to express my special appreciation to my staff and the Division of Accounting as well as all the other individuals and agencies that assisted in the preparation of this report. This report is also available on the Internet at: http://www.state.de.us/finance/default.shtml.

Sincerely,



David W. Singleton
Secretary of Finance

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## State of Delaware

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2003

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

Nancy L. Zielke
President

Jeffrey R. Esser
Executive Director

# STATE OF DELAWARE
# SELECTED STATE OFFICIALS
# As of June 30, 2004

## KEY ELECTED OFFICIALS:

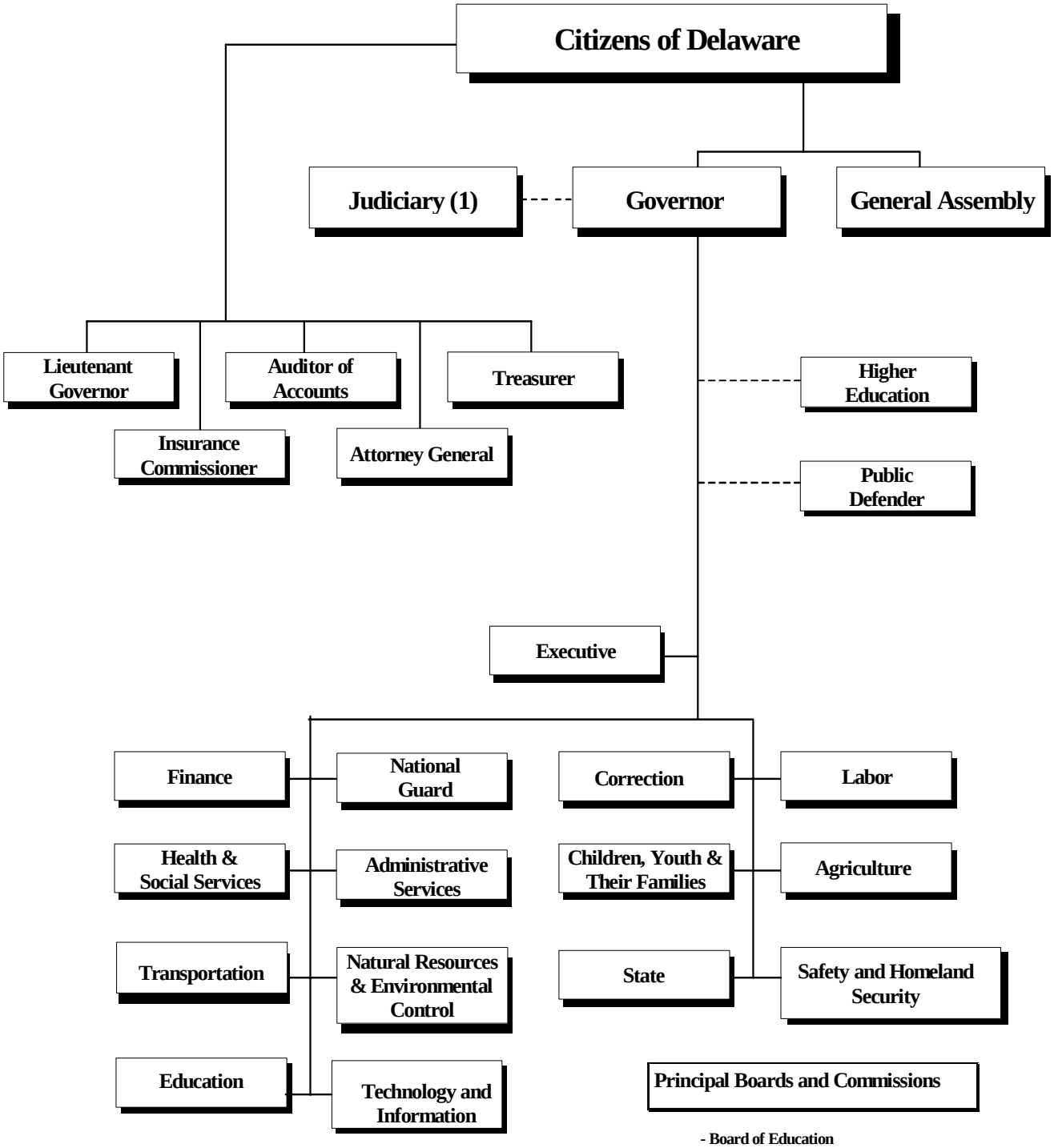
| | |
|---|---|
| Governor | Ruth Ann Minner |
| Lt. Governor | John C. Carney, Jr. |
| Attorney General | M. Jane Brady |
| State Treasurer | Jack A. Markell |
| State Auditor | R. Thomas Wagner |
| Insurance Commissioner | Donna Lee H. Williams |

## KEY LEGISLATIVE OFFICIALS:

| | |
|---|---|
| President Pro Tem of the Senate | Thurman G. Adams, Jr. |
| Senate Majority Leader | Harris B. McDowell |
| Senate Minority Leader | John C. Still |
| Speaker of the House of Representatives | Terry R. Spence |
| House of Representatives Majority Leader | Wayne A. Smith |
| House of Representatives Minority Leader | Robert F. Gilligan |

## CABINET POSITIONS AND OTHER APPOINTED OFFICIALS:

| | |
|---|---|
| Administrative Services | Gloria Wernicki Homer |
| Agriculture | Michael T. Scuse |
| Budget | Jennifer W. Davis |
| Corrections | Stanley W. Taylor, Jr. |
| Delaware Economic and Development Office | Judy McKinney-Cherry |
| Delaware State Housing Authority | Saundra R. Johnson |
| Education | Valerie A. Woodruff |
| Finance | David W. Singleton |
| Health and Social Services | Vincent P. Meconi |
| Labor | Harold E. Stafford |
| National Guard | (Major General) Francis D. Vavala |
| Natural Resources and Environmental Control | John A. Hughes |
| Personnel | Lisa Blunt-Bradley |
| Department of Safety and Homeland Security | David B. Mitchell |
| Services for Children, Youth and Their Families | Carol Ann DeSantis |
| State | Harriet N. Smith-Windsor |
| Technology and Information | Thomas M. Jarrett |
| Transportation | Nathan Hayward |


Citizens of Delaware
Judiciary (1)
Governor
General Assembly
Lieutenant Governor
Auditor of Accounts
Treasurer
Higher Education
Insurance Commissioner
Attorney General
Public Defender
Executive
Finance
National Guard
Correction
Labor
Health & Social Services
Administrative Services
Children, Youth & Their Families
Agriculture
Transportation
Natural Resources & Environmental Control
State
Safety and Homeland Security
Education
Technology and Information
Principal Boards and Commissions
- Board of Education
- Elections
- Exceptional Citizens
- Fire Prevention
- Parole
(1) Judiciary - All Judges are appointed by the Governor with the consent of the Senate.

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State of Delaware
Comprehensive Annual
Financial Report

# Financial Section

KPMG LLP
Suite 200
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PO Box 1190
Harrisburg, PA 17108-1190

## Independent Auditors' Report

The Honorable Governor and
Honorable Members of the State Legislature
State of Delaware:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Delaware (State) as of and for the year ended June 30, 2004, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component units; certain major funds (including Lottery and DelDot) which represent 94% of the assets and 94% of the revenues of the business-type activities, and the fiduciary trust funds which represent 99% of the assets and 100% of the revenues/additions of the remaining aggregate fund information. The financial statements of these entities were audited by other auditors whose reports thereon have been furnished to us, and our opinion on the basic financial statements, insofar as it relates to the amounts included for these entities, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Delaware as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP, a U.S. limited liability partnership, is the U.S. member firm of KPMG International, a Swiss cooperative.

The management's discussion and analysis on pages 4 through 18, the budgetary comparison schedules for the general fund and special fund on pages 88 through 93, the information about infrastructure assets reported using the modified approach on pages 94 and 95, and the schedules of required supplementary pension data on pages 96 through 98 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we and the other auditors did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State's basic financial statements. The supplementary financial information, introductory and statistical sections as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary combining statements have been subjected to the auditing procedures applied for the audit of the basic financial statements, and in our opinion, in conjunction with other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

KPMG LLP

November 30, 2004

# Management's Discussion and Analysis

The following is a discussion and analysis of the State of Delaware's financial activities for the fiscal year ended June 30, 2004. Readers are encouraged to consider the information presented here in conjunction with additional information that is furnished in the letter of transmittal, which can be found on pages i-ix of this report.

These financial statements have been prepared using the financial accounting model adopted by the Governmental Accounting Standards Board (GASB). This is the third year of implementation in Delaware for these new standards.

## Financial Highlights

- The assets of the State exceeded its liabilities at the close of the most recent fiscal year by $5.0 billion (net assets). Component units reported net assets of $552.9 million, an increase of $22.8 million from the previous year.
- The primary government's total net assets increased by $331.4 million (7.1%) in fiscal year 2004. Net assets of governmental activities increased by $395.6 million (24.2%) from the previous year, while net assets of the business-type activities decreased $64.2 million (2.1%) from the previous year.
- As of the close of the current fiscal year, the State's governmental funds reported combined ending fund balances of $1,389.1 million, an increase of $406.6 million (41.4%) in comparison with the prior year. This increase resulted primarily from increases in business taxes and grant revenues.
- At the end of the current fiscal year, unreserved fund balance for the general fund was $929.2 million, or 30.5% of total general fund expenditures. For the most part, the unreserved fund balance is not available for new spending. These funds have been committed based on State statutes.
- The State's total general obligation debt increased during the fiscal year to $1,012.5 million, an increase of $158.2 million (18.5%). Approximately 87.5% of new money bonds issued during fiscal year 2004 will be allocated to public and higher education facilities. The remaining 12.5% will be spent on State offices and other facilities. It should be noted that $288.5 million of the State's general obligation debt has been issued on behalf of local school districts and is fully supported by property tax revenues.

## Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the State's basic financial statements. The State's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains

other required supplementary information, in addition to the basic financial statements.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the State of Delaware's finances, in a manner similar to a private sector business.

The statement of net assets presents information on all of the State of Delaware's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the State of Delaware is improving or deteriorating.

The statement of activities presents information showing how the State's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event that created the change occurs, regardless of the timing of related cash flows. As a result, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the State that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the State include general government, health and children's services, judicial and public safety, natural resources and environmental control, labor and education. The business-type activities of the State include transportation, lottery and unemployment services.

The government-wide financial statements include not only the State (known as the primary government), but also legally separate entities for which the State of Delaware is financially accountable. These entities include the Delaware State Housing Authority, the Diamond State Port Corporation, the Riverfront Development Corporation, the Delaware State University, the Delaware Technical Community College Educational Foundation and 13 charter schools. Financial information for these component units is reported separately from the financial information presented for the primary government. The government-wide financial statements can be found on pages 20-21 of this report.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The State, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the State of Delaware can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

***Governmental funds.*** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of available resources, as well as on balances of available resources on hand at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for government funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The State maintains four individual governmental funds: the general fund, the capital projects fund, the federal fund and the local school district fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for these funds.

The State budgets and controls its financial activities on the cash basis of accounting. In compliance with State law, the State records its financial transactions in either of two major categories – the General Fund or the Special Fund. References to these funds in this report include the terms "budgetary" or "budgetary basis" to differentiate them from the GAAP funds of the same name which encompass different funding categories. The State of Delaware adopts an annual appropriated budget for its budgetary general fund. A budgetary comparison statement has been provided for the budgetary general fund to demonstrate compliance with this budget. The statement can be found on page 90 of this report.

The basic governmental fund financial statements can be found on pages 22-25 of this report.

***Proprietary funds.*** The State maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The State uses enterprise funds to account for the State Lottery, Unemployment Trust Fund and the Department of Transportation operations.

Proprietary funds provide the same type of information as the government-wide financial statements, but in more detail. The proprietary fund financial statements provide separate information for the State Lottery, Unemployment Trust Fund and

the Department of Transportation (DelDOT), all of which are considered to be major funds of the State.

The basic proprietary fund financial statements can be found on pages 26-28 of this report.

***Fiduciary funds.*** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the State's own programs. The pension trust funds are the primary fiduciary funds for the State. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 29-30 of this report. Combining fiduciary fund statements can be found on pages 100-104.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 34-86 of this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report presents certain Required Supplementary Information (RSI) concerning the status of the State's legally adopted budget, the maintenance of the State's infrastructure and additional schedules related to funding status and progress, annual pension costs and actuarial methods and assumption for the State's pension trusts. RSI can be found on pages 88-98 of this report.

**Statewide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the State of Delaware, assets exceeded liabilities for the primary government by $5.0 billion at the close of the most recent fiscal year.

The largest portion of the State's net assets (67.1%) reflects its investment in capital assets (e.g., land, buildings, vehicles, and equipment), less any related debt used to acquire those assets that is still outstanding. The State uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the State's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Restricted net assets, comprising 7.4% of total net assets, represents resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The remaining portion, unrestricted net assets (25.5%), may be used at the State's

discretion, but, for the most part, these funds have been appropriated based on State statutes.

**State of Delaware's Net Assets**

(Expressed in Thousands)

| | Governmental Activities | | Business-type Activities | | Total | |
|---|---|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 * | 2004 | 2003 |
| Current and other non-current assets | $ 1,977,745 | $ 1,557,734 | $ 581,737 | $ 737,349 | $ 2,559,482 | $ 2,295,083 |
| Capital assets | 1,822,570 | 1,639,195 | 3,377,007 | 3,360,132 | 5,199,577 | 4,999,327 |
| Total assets | 3,800,315 | 3,196,929 | 3,958,744 | 4,097,481 | 7,759,059 | 7,294,410 |
| Long-term liabilities outstanding | 1,229,869 | 1,071,017 | 820,485 | 885,926 | 2,050,354 | 1,956,943 |
| Other liabilities | 541,545 | 492,624 | 184,485 | 193,543 | 726,030 | 686,167 |
| Total liabilities | 1,771,414 | 1,563,641 | 1,004,970 | 1,079,469 | 2,776,384 | 2,643,110 |
| Net assets: | | | | | | |
| Invested in capital assets, net of related debt | 767,977 | 762,239 | 2,561,502 | 2,496,989 | 3,329,479 | 3,259,228 |
| Restricted | 148,150 | 136,460 | 219,844 | 256,792 | 367,994 | 393,252 |
| Unrestricted | 1,112,774 | 734,589 | 172,428 | 264,231 | 1,285,202 | 998,820 |
| Total net assets | $ 2,028,901 | $ 1,633,288 | $ 2,953,774 | $ 3,018,012 | $ 4,982,675 | $ 4,651,300 |

* As restated. (note 19)

The condensed financial information on the following page was derived from the government-wide Statement of Activities and reflects how the State's net assets changed during the fiscal year.

## Changes in Net Assets - Primary Government

(Expressed in Thousands)

| | Governmental Activities | | Business-type Activities | | Total Primary Government | |
|---|---|---|---|---|---|---|
| | 2004 | 2003 * | 2004 | 2003 | 2004 | 2003 |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | $ 428,206 | $ 362,544 | $ 1,045,533 | $ 994,052 | $ 1,473,739 | $ 1,356,596 |
| Operating grants and contributions | 894,779 | 772,470 | | | 894,779 | 772,470 |
| Capital grants and contributions | | | 92,680 | 115,502 | 92,680 | 115,502 |
| General revenues: | | | | | | |
| Taxes: | | | | | | |
| Personal income taxes | 777,969 | 706,277 | | | 777,969 | 706,277 |
| Business taxes | 1,356,081 | 1,180,281 | | | 1,356,081 | 1,180,281 |
| Other taxes | 240,296 | 201,115 | | | 240,296 | 201,115 |
| Real estate taxes | 289,346 | 267,177 | | | 289,346 | 267,177 |
| Investment earnings | 36,109 | 73,911 | 18,261 | 25,073 | 54,370 | 98,984 |
| Gain (Loss) on sale of assets | (2,482) | 13,536 | (654) | (287) | (3,136) | 13,249 |
| Miscellaneous | 37,105 | 29,400 | | | 37,105 | 29,400 |
| Total revenues | 4,057,409 | 3,606,711 | 1,155,820 | 1,134,340 | 5,213,229 | 4,741,051 |
| Expenses: | | | | | | |
| General Government | 339,945 | 284,070 | | | 339,945 | 284,070 |
| Health and Children's Services | 1,399,354 | 1,346,143 | | | 1,399,354 | 1,346,143 |
| Judicial and Public Safety | 442,345 | 406,757 | | | 442,345 | 406,757 |
| Natural Resources and Environmental Control | 113,189 | 98,596 | | | 113,189 | 98,596 |
| Labor | 61,963 | 51,699 | | | 61,963 | 51,699 |
| Education | 1,422,046 | 1,402,410 | | | 1,422,046 | 1,402,410 |
| Payment to Component Unit - | | | | | | |
| General Government | 1,952 | 5,927 | | | 1,952 | 5,927 |
| Education | 73,361 | 68,850 | | | 73,361 | 68,850 |
| Interest Expense | 50,201 | 42,000 | | | 50,201 | 42,000 |
| Lottery | | | 357,011 | 353,840 | 357,011 | 353,840 |
| Transportation | | | 497,499 | 507,147 | 497,499 | 507,147 |
| Payment to Component Unit | | | 8,852 | 946 | 8,852 | 946 |
| Unemployment | | | 114,136 | 125,270 | 114,136 | 125,270 |
| Total expenses | 3,904,356 | 3,706,452 | 977,498 | 987,203 | 4,881,854 | 4,693,655 |
| Increase (Decrease) in net assets before transfers | 153,053 | (99,741) | 178,322 | 147,137 | 331,375 | 47,396 |
| Transfers | 242,560 | 246,553 | (242,560) | (246,553) | | |
| Increase (decrease) in net assets | 395,613 | 146,812 | (64,238) | (99,416) | 331,375 | 47,396 |
| Net assets - beginning of year (as restated) | 1,633,288 | 1,486,476 | 3,018,012 | 3,117,428 | 4,651,300 | 4,603,904 |
| Net assets - end of year | $ 2,028,901 | $ 1,633,288 | $ 2,953,774 | $ 3,018,012 | $ 4,982,675 | $ 4,651,300 |

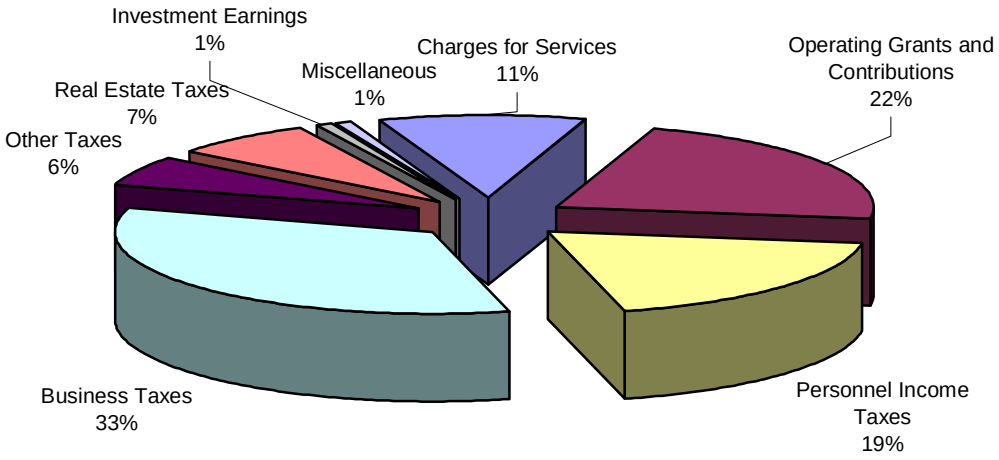
* Some reclassifications made to conform to current year presentation

**Governmental activities.** Governmental activities increased the State's net assets by $399.4 million. The decrease by the business-type activities of $64.2 million is explained on the following page. A comparison of the cost of services by function for the State's governmental activities is shown in the following chart, along with the revenues used to cover the net expenses of the governmental activities. Key elements of the increase in net assets are as follows:

Total general revenues increased $262.7 million (10.6%) based on growth primarily in business taxes of $175.8 million (59.2%) due, in part, to a franchise tax increase adopted in June 2003 for fiscal year 2004. Personal income tax increased by $71.7 million (10.2%) due to better jobs, income, and stock performance. For a third consecutive year, the realty transfer tax grew due to low mortgage rates and a continued building boom throughout the State.

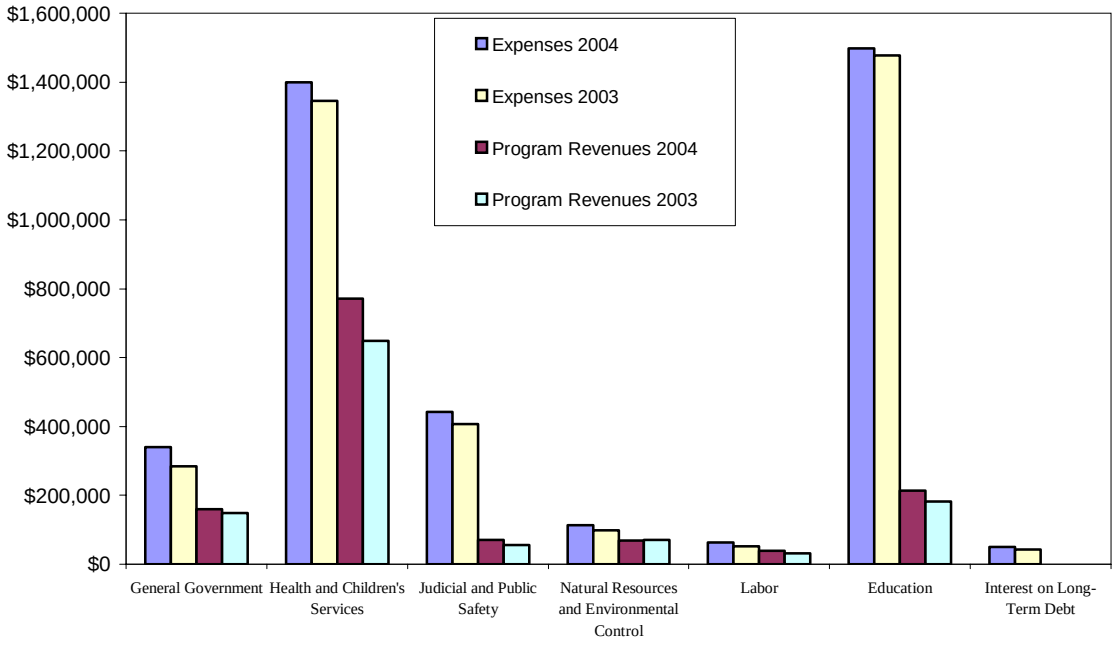
Program Revenues increased by $188.0 million (16.6%). This increase was due primarily to increases in grant revenues at the Department of Health and Social Services and the Department of Education.

**Revenues by Source – Governmental Activities**




Expenses for governmental activities increased during fiscal year 2004 by $197.9 million (5.3%). Health and Children's Services spending increased $53.2 million over the prior fiscal year, an increase attributable to escalating Medicaid costs and an increase in the population served. Judicial and Public Safety expenses increased by $35.6 million due to increased caseloads and increased spending in homeland security. Natural Resources and Environmental Control expenses increased by $14.6 million due to increases in park maintenance and in services provided. Interest payments increased by $8.2 million. Education expenses increased $24.1 due to continued implementation of education initiatives. Labor expenses rose by $10.3 million due to increased training and vocational rehabilitation costs. General government spending increased $51.9 million due to increased operational costs and a one-time salary bonus paid to State employees.

**Expenses and Program Revenues – Governmental Activities**



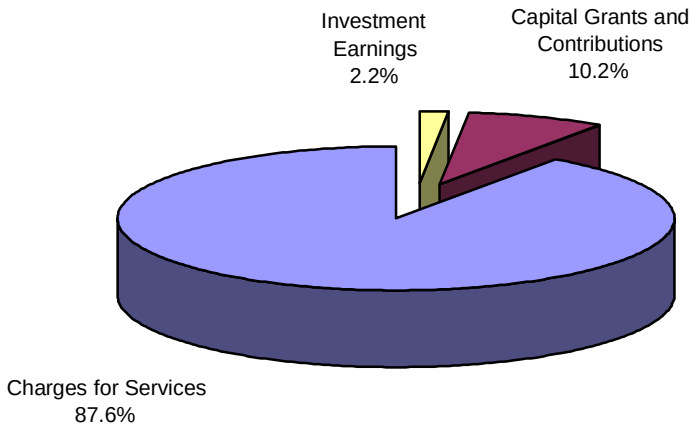

**Business-type activities.** Business-type activities decreased the State's net assets by $64.2 million. This resulted from a $36.9 million decrease in net assets by the Delaware Unemployment Insurance Trust Fund, a decrease in net assets of $27.0 million by the Delaware Department of Transportation (DelDOT) and a decrease of $0.3 million in the net assets of the Delaware State Lottery.

The decrease in net assets of the Delaware Unemployment Insurance Trust Fund can be attributed to unemployment benefits decreasing by 8.9% ($11.1 million), unemployment insurance tax revenues during fiscal 2004 increasing by 17.4% ($9.3 million), and but benefits expense still exceeded tax revenues by $51.3 million. Based upon a report from the U.S. Department of Labor, as of June 30, 2004, the Delaware Unemployment Trust Fund's net asset's were ranked 7$^{th}$ strongest in the nation. This ranking was based on the AHCM (average high cost multiple) methodology used by the U.S. Department of Labor to evaluate financial strength of states' Unemployment Trust Funds.

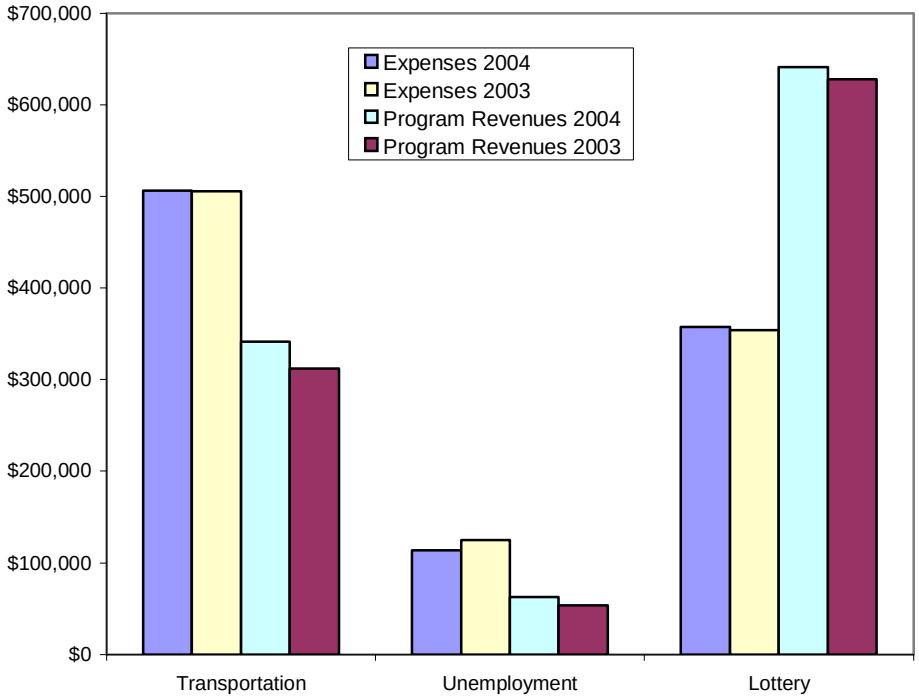
The DelDOT fund's net assets at June 30, 2004 were $27.0 million lower than June 30, 2003, primarily due to a decrease in federal grant revenues. The Department's total operating revenues increased $29.3 million to $341.8 primarily due to an increase in motor fuel tax, vehicle document fees and the regional E-ZPass consortium. Total operating expenses increased $13.5 million to $472.0 million primarily due to the establishment of the E-ZPass Customer Service Center and the transfer of the Division of Motor Vehicles from the governmental activities to the DelDOT fund.

The Delaware Lottery experienced a decrease in net assets of $0.3 million. Lottery revenues increased by $12.8 million, or 2.0% higher than last year while operating expenses increased to $53.2 million which reflects a 1% increase from 2003's prize expense of $52.7 million. The increase in revenues can be attributed to the increase in 2004 sales of the Powerball/Powerplay, instant games and the Video Lottery revenue over the previous year 2003.

**Revenues by Source – Business-type Activities**




**Expenses and Program Revenues – Business-type Activities**



## Financial Analysis of the State's Funds

As noted earlier, the State uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

***Governmental funds.*** The focus of the State's governmental funds is to provide information on near-term inflows, outflows, and balances of available resources. Such information is useful in assessing the State of Delaware's financing requirements. Unreserved fund balances may serve as a useful measure of a government's net resources at the end of the fiscal year.

As of the end of the current fiscal year, the State of Delaware's governmental funds reported combined ending fund balances of $1,389.1 million, an increase of $406.6 million in comparison with the prior year. Approximately 66.5% of the aggregate fund balances, $924.2 million, constitutes unreserved fund balances. The unreserved fund balances, for the most part, are not available for new spending. These funds have been committed to various uses based on State statutes. The remainder of the fund balances are reserved to indicate that they are not available for new spending due to the following: 1) to liquidate contracts and purchase orders of the prior period ($290.5 million), 2) set aside for the budget reserve account ($148.2 million), 3) for inventories and other assets ($3.9 million), and 4) for prepaid items ($22.4 million).

The general fund accounts for the operation and administration of the State. Total general fund balance increased during the fiscal year by $266.9 million. Tax revenue exceeded budgeted forecasts while spending remained conservative with general fund expenditures below the level of appropriations.

At the end of the current fiscal year, unreserved fund balance of the general fund was $929.2 million, while total fund balance reached $1,215.9 million. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 30.5% of total general fund expenditures, while total fund balance represents 39.8% of that same amount.

***Proprietary funds.*** The State of Delaware's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. The proprietary fund financial statements provide separate information for the State Lottery, Unemployment Trust Fund and the DelDOT fund, all of which are considered to be major funds of the State.

The State's net assets decreased in fiscal 2004 by $64.2 million as a result of operations in the proprietary funds. Pages 11 and 12 discuss the changes in net assets of the business-type activities.

## General Fund Budgetary Highlights

The Budgetary General Fund is the chief operating fund of the State. At the end of the fiscal year, total fund balance increased by $181.7 million (39%). Revenues were $299.0 million higher (12.3% percent) than the previous fiscal year due to several factors. A tax package was passed in June 2003 resulting in an increase to Franchise taxes of $67.6 million and Cigarette taxes of $39.0 million. A rebound in the Delaware economy resulted in greater than expected growth in employment and personal income. This translated into healthy growth in the economically sensitive revenue categories. Personal Income tax grew by $70.9 million while Realty Transfer tax grew by $22.6 million and Gross Receipts tax grew by $132.9 million. In addition, a continued strong enforcement program resulted in growth in abandoned property collections of $70.5 million.

Expenditures were $93.4 million higher than the previous fiscal year. Salaries and other employment costs increased by $38.9 million (3%). Medicaid and Public Assistance grew by $14.8 million (3.9%) while grants increased $28.0 million (17.7%). In addition, debt service payments increased by $18.1 million (15.5%). These increases were offset by a decrease in Personal Services and Travel of $13.8 million (8.8%).

Although Delaware's economy rebounded with revenue growth throughout the year, spending remained conservative. The original budget was modified to provide increased spending in salaries and services in education, health and children's services, self-insurance for health care and in minor capital renovations in facilities management. The final budget consists of the original budget, encumbrances and multi-year project budgetary carry-forwards from the prior fiscal year, and all modifications to the original budget.

Authorized expenditures (final budget) exceeded actual expenditures in all departments, with significant variances in the following departments:

- $49.1 million in the Executive Department (salaries and self-insurance);
- $70.2 million in the Department of Education (salaries and educational programs);
- $62.7 million in the Departments of Health and Children's Services (increase health programs);
- $14.0 million in the Department of Natural Resources and Environmental Control (salaries and minor capital renovations);
- $37.0 million in Facilities Management in Administrative Services (minor capital renovations).

## Capital Asset and Debt Administration

**Capital assets.** The State of Delaware's investment in capital assets for its governmental and business-type activities, as of June 30, 2004, amounts to $5.2 billion (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings, vehicles and equipment, easements, roads, highways, and bridges. The total increase in capital assets for governmental activities was $183.4 million (11.2%) and an increase of $16.9 million (0.5%) for business-type activities.

Major capital asset events during the current fiscal year included the following:

- Completion of the Stevenson House secure care facility ($15.3 million, the new Delaware State Police Troop 2 facility ($11.3 million), the Smyrna Readiness Center ($7.6 million), and new schools and improvements to existing schools ($129.0 million). In addition, construction-in-progress as of June 30, 2004 was $203.3 million for governmental activities. Of this amount, approximately 83.1% is related to the building of new schools and improvements to existing schools.
- As of June 30, 2004, the DelDOT fund had invested $3,376.7 million in capital assets, including roads, bridges, buildings, land, and equipment, an increase of $17.0 million over June 30, 2003. Two major factors contribute to the increase. One is an investment by DelDOT of $8.2 million in public transit vehicles and facilities. The second is the addition of the E-Zpass express high-speed lanes at the Dover Toll Plaza on SR-1. SR-1 is a 41 mile, fully controlled access, highway extending from a connection with the northern terminus of the new Route 1 toll road south of Wilmington to points south of Dover on U.S. Routes 13 and 113 and is the largest public works project ever undertaken in Delaware.

As allowed by GASB Statement No. 34, the State has adopted an alternative process for recording expense related to selected infrastructure assets. Under this alternative method, referred to as the modified approach, the State expenses certain maintenance and preservation costs and does not report depreciation expense. Assets accounted for under the modified approach include 11,057 center-line miles of roads and 1,360 bridges that the State is responsible to maintain.

DelDOT performs condition assessments of eligible infrastructure assets at least every three years. Currently, road condition assessments are conducted every year using the Overall Pavement Condition (OPC) rating system. Bridge condition assessments are conducted, for the most part, every two years using the Bridge Condition Rating (BCR) system.

It is DelDOT's policy to maintain at least 75 percent of its highways and bridge system at a Good or Better condition rating. No more than 10 percent of bridges and 15 percent of roads should be in substandard condition.

Of the State's 1,360 bridges that were rated in 2003, 1,012 or 74.5 percent received a Good or Better BCR rating, 19.0 percent were rated fair, and 6.5 percent received a substandard rating. Of the 7,145,202 square feet of bridge deck that was rated, 97 percent or 6,932,464 square feet received an OPC condition rating of Good or Better, 2.4 percent or 171,485 square feet received a fair rating, and .6 percent or 42,871 square feet received a substandard deck rating.

In 2003, when 4,464 centerline miles were rated, 77.5 percent received a Good or Better OPC rating, 14.4 percent received a fair rating, and 8.1 percent received a poor rating.

The 2004 estimate to maintain and preserve the Department of Transportation's infrastructure was $122.7 million, but the actual expenditure was $133.8 million, which is an $11.1 million increase over the estimate. The variance is predominantly attributed to change orders necessary on jobs that were not estimated when the project was set up and budgeted.

Additional information on the State's capital assets can be found in Note 1 on pages 42-43, Note 12 on page 70-71 and on pages 94-95 of the Required Supplementary Information.

**State of Delaware Capital Assets as of June 30**
**Net of Depreciation**
(Expressed in Thousands)

| | Governmental Activities | | Business-type Activities | | Total Primary Government | |
|---|---|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| Land | $ 327,811 | $ 286,424 | $ 113,673 | $ 111,562 | $ 441,484 | $ 397,986 |
| Land Improvements | 40,096 | 23,587 | | | 40,096 | 23,587 |
| Buildings | 1,141,681 | 914,996 | 34,552 | 33,022 | 1,176,233 | 948,018 |
| Easements | 66,822 | 66,822 | | | 66,822 | 66,822 |
| Equipment and vehicles | 42,897 | 50,568 | 80,301 | 89,070 | 123,198 | 139,638 |
| Infrastructure | | | 3,148,481 | 3,126,478 | 3,148,481 | 3,126,478 |
| Construction-in-progress | 203,263 | 296,798 | | | 203,263 | 296,798 |
| Total | $ 1,822,570 | $ 1,639,195 | $ 3,377,007 | $ 3,360,132 | $ 5,199,577 | $ 4,999,327 |

**Long-term debt.** Beginning in fiscal year 2000, the three principal rating agencies, Moody's Investors Service, Fitch Ratings and Standard & Poor's, have rated Delaware's General Obligation bonds Aaa, AAA and AAA, respectively. Due to the quality of the State's financial management, manageable debt burden and above-average wealth, and income levels, these ratings were reaffirmed in both bond issuances during fiscal year 2004.

At the end of the current fiscal year, the State had total general obligation bond debt outstanding of $1,012.5 million, backed by the full faith and credit of the State.

Property tax revenues collected by the Local School Districts support $288.5 million of the balance. During the fiscal year ended June 30, 2004, the Local School Districts transferred $27.5 million of property tax revenue to the State's general fund to cover the related debt service.

The Delaware Department of Transportation Trust Fund had revenue bonds outstanding of $815.5 million. The bonds do not constitute a debt of the State or a pledge of the general taxing power or the faith and credit of the State.

**State of Delaware Outstanding Debt**
**General Obligation and Revenue Bonds**
(Expressed in Millions)

| | Governmental Activities | | Business-type Activities | | Total Primary Government | |
|---|---|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| General obligation bonds | $ 1,012.5 | $ 854.3 | | | $ 1,012.5 | $ 854.3 |
| Revenue bonds | | 0.2 | $ 815.5 | $ 863.1 | 815.5 | 863.3 |
| Total | $ 1,012.5 | $ 854.5 | $ 815.5 | $ 863.1 | $ 1,828.0 | $ 1,717.6 |

The State of Delaware's total general obligation debt increased by $158.2 million (18.5%) during fiscal year 2004. The key factors in this increase were construction of public and higher education facilities, prisons, State offices and other facilities. The State has undertaken a series of bond refundings, which have lowered the overall debt service on outstanding State general obligation debt. The State refunded $74.6 million of its general obligation bonds for a cash flow savings of $2.9 million.

Transportation Systems Revenue Bonds are issued with the approval of the State's General Assembly, and the State's Bond Issuing Officers (the Governor, the Secretary of Finance, the Secretary of State, and the State Treasurer) to finance improvements to the State's transportation systems. Approval by the General Assembly of the State is not required for the Transportation Fund to issue bonds or to refund any of its bonds, provided a present value debt service savings is achieved in such refunding. The sale must comply with the rules and regulations of the United States Treasury Department and the United States Securities and Exchange Commission.

At June 30, 2004, the Transportation Fund's debt decreased by $47.6 million. During the past year, no bonds were issued or refunded. Of the nine outstanding Transportation Fund bond issues, one has an AA rating from Standard and Poor's and an A1 rating from Moody's. The remaining eight issues are rated AAA by Standard and Poor's and Aaa by Moody's.

There is no State Constitutional debt limit; however, in 1991, the State enacted legislation to replace the previous statutory debt limits with a three-part debt limit, one of which restricts new debt authorization to 5% of budgetary General Fund revenue as projected on June 30 for the next fiscal year. Should revenue collections increase during the fiscal year, no additional authorizations are made.

Additional information on the State of Delaware's long-term debt can be found in Note 5 on pages 54-56 of this report. Further information concerning the State's debt limits can be found on 115 of the Statistical Section.

**Economic Factors and Next Year's Budgets and Rates**

The Delaware Economic and Financial Advisory Council (DEFAC) met on June 21, 2004, to prepare the final revenue and expenditure estimates upon which the fiscal year 2005 operating and capital budgets would be based. The Department of Finance estimated that employment in Delaware had increased by 0.8% during fiscal year 2004, reversing the negative trend seen in fiscal years 2002 and 2003. Fiscal year 2005 employment is expected to accelerate further, with job growth pegged at 1.9%.

The fiscal year 2005 operating and capital budgets meet budgetary spending limitations imposed by law. The budget reflects higher growth rates in revenues and carryover of surplus cash from fiscal year 2004. The fiscal year 2005 operating budget is $2,600.4 million, 5.4% more than fiscal year 2004. The amount of cash allocated to the capital budget grew 65.5%, increasing from $142.0 million in fiscal year 2004 to $235.0 million in fiscal year 2005.

**Requests for Information**

This financial report is designed to provide a general overview of the State of Delaware's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Accounting, 540 South DuPont Highway, Thomas Collins Building, Suite 3, Dover, Delaware 19901. This CAFR can also be found at the following Internet address: http://www.state.de.us/finance/default.shtml.

The State's component units publish their own separately issued audited financial statements. These statements may be obtained from their respective administrative offices or from the Office of Auditor of Accounts, the Townsend Building, Suite #1, 401 Federal Street, Dover, DE 19901.

State of Delaware
Comprehensive Annual
Financial Report

# Basic Financial Statements

**STATE OF DELAWARE**
**STATEMENT OF NET ASSETS**
**JUNE 30, 2004**
(Expressed in Thousands)

| | Primary Government | | | |
|---|---|---|---|---|
| | Governmental Activities | Business-type Activities | Total | Component Units |
| **ASSETS** | | | | |
| **Current assets:** | | | | |
| Cash and cash equivalents | $ 536,652 | $ 263,387 | $ 800,039 | $ 25,376 |
| Cash and cash equivalents - restricted | | 1,583 | 1,583 | 4,479 |
| Investments | 317,716 | 155,127 | 472,843 | 37,217 |
| Investments - restricted | | 2,468 | 2,468 | 2,728 |
| Accounts and other receivables, net | 173,932 | 37,754 | 211,686 | 28,243 |
| Loans and notes receivable, net | 259 | | 259 | 56,907 |
| Internal balances | 2,062 | (2,062) | | |
| Inventories | 3,925 | 10,457 | 14,382 | 551 |
| Prepaid items | 22,400 | 494 | 22,894 | 3,983 |
| Other restricted assets | | | | 1,137 |
| Other current assets | | | | 1,263 |
| **Total current assets** | 1,056,946 | 469,208 | 1,526,154 | 161,884 |
| **Noncurrent assets:** | | | | |
| Investments | 772,147 | 73,160 | 845,307 | 93,543 |
| Investments-restricted | | 9,318 | 9,318 | 24,885 |
| Accrued interest receivable | | 1,259 | 1,259 | 2,500 |
| Accounts and other receivables, net | 52,860 | | 52,860 | |
| Loans and notes receivable, net | 92,323 | 27,074 | 119,397 | 352,529 |
| Capital assets | | | | |
| Non-depreciable | 597,896 | 3,262,154 | 3,860,050 | 77,818 |
| Depreciable capital assets, net | 1,224,674 | 114,853 | 1,339,527 | 319,572 |
| Deferred bond issuance costs | 3,469 | | 3,469 | 4,741 |
| Other restricted assets | | | | 5,036 |
| Other noncurrent assets | | 1,718 | 1,718 | 4,753 |
| **Total noncurrent assets** | 2,743,369 | 3,489,536 | 6,232,905 | 885,377 |
| **Total assets** | 3,800,315 | 3,958,744 | 7,759,059 | 1,047,261 |
| **LIABILITIES** | | | | |
| **Current liabilities:** | | | | |
| Accounts payable | 325,296 | 54,629 | 379,925 | 12,078 |
| Accrued liabilities | 47,212 | 36,140 | 83,352 | 11,821 |
| Intergovermental payables | 438 | | 438 | |
| Interest payable | 21,487 | 20,238 | 41,725 | |
| Notes payable | | | | 8,078 |
| Deferred revenues | 3,815 | 3,032 | 6,847 | 392 |
| Capital leases | | | | 416 |
| Escheat liabilities | 7,000 | | 7,000 | |
| Compensated absences | 9,047 | 3,481 | 12,528 | 13 |
| Claims and judgments | 16,483 | 2,224 | 18,707 | |
| Escrow deposits | | 1,570 | 1,570 | 87 |
| Current portion of general obligation long-term debt | 107,890 | | 107,890 | |
| Current portion of revenue bonds | | 53,920 | 53,920 | 9,996 |
| Current portion of bond issue premium, net | 2,449 | | 2,449 | |
| Other current liabilities | 428 | 9,251 | 9,679 | 1,970 |
| **Total current liabilities** | 541,545 | 184,485 | 726,030 | 44,851 |
| **Noncurrent liabilities:** | | | | |
| Compensated absences | 108,121 | 7,610 | 115,731 | 756 |
| Pension obligation | 88,618 | | 88,618 | |
| Claims and judgements | 58,464 | 12,590 | 71,054 | |
| Capital leases | | | | 1,808 |
| Escheat liabilities | 28,000 | | 28,000 | |
| Escrow deposits | | | | 30,374 |
| Liabilities payable from restricted assets | | 9,318 | 9,318 | |
| Notes payable | | | | 50,768 |
| General obligation long-term debt | 904,654 | | 904,654 | |
| Revenue bonds | | 761,585 | 761,585 | 332,643 |
| Bond issue premium, net | 39,600 | 29,382 | 68,982 | |
| Other long-term obligations | 2,412 | | 2,412 | 33,193 |
| **Total noncurrent liabilities** | 1,229,869 | 820,485 | 2,050,354 | 449,542 |
| **Total liabilities** | 1,771,414 | 1,004,970 | 2,776,384 | 494,393 |
| **NET ASSETS** | | | | |
| Invested in capital assets, net of related debt | 767,977 | 2,561,502 | 3,329,479 | 276,785 |
| Restricted | | | | |
| Budgetary reserve | 148,150 | | 148,150 | |
| Unemployment benefits | | 219,830 | 219,830 | |
| Federal and state regulations | | | | 158,388 |
| Bond covenants | | | | 26,122 |
| Capital projects | | | | 21,506 |
| Other restrictions | | 14 | 14 | 25,443 |
| Unrestricted | 1,112,774 | 172,428 | 1,285,202 | 44,624 |
| **Total net assets** | $ 2,028,901 | $ 2,953,774 | $ 4,982,675 | $ 552,868 |

See Accompanying Notes to the Financial Statements

**STATE OF DELAWARE**
**STATEMENT OF ACTIVITIES**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2004**
(Expressed in Thousands)

| | | Program Revenues | | | Net (Expenses) Revenue and Changes in Net Assets | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | Primary Government | | | |
| **Function** | **Expenses** | **Charges for Services** | **Operating Grants and Contributions** | **Capital Grants and Contributions** | **Governmental Activities** | **Business-Type Activities** | **Total** | **Component Units** |
| **Primary government:** | | | | | | | | |
| Governmental activities: | | | | | | | | |
| General Government | $ 339,945 | $ 131,470 | $ 28,028 | | $ (180,447) | | $ (180,447) | |
| Health and Children's Services | 1,399,354 | 138,056 | 633,887 | | (627,411) | | (627,411) | |
| Judicial and Public Safety | 442,345 | 42,086 | 28,280 | | (371,979) | | (371,979) | |
| Natural Resources and Environmental Control | 113,189 | 36,491 | 32,212 | | (44,486) | | (44,486) | |
| Labor | 61,963 | 3,241 | 35,675 | | (23,047) | | (23,047) | |
| Education | 1,422,046 | 76,862 | 136,697 | | (1,208,487) | | (1,208,487) | |
| Payment to Component Unit - | | | | | | | | |
| General Government | 1,952 | | | | (1,952) | | (1,952) | |
| Education | 73,361 | | | | (73,361) | | (73,361) | |
| Interest | 50,201 | | | | (50,201) | | (50,201) | |
| Total governmental activities | 3,904,356 | 428,206 | 894,779 | | (2,581,371) | | (2,581,371) | |
| Business-type activities: | | | | | | | | |
| Lottery | 357,011 | 640,925 | | | | $ 283,914 | 283,914 | |
| Transportation | 497,499 | 341,772 | | 92,680 | | (63,047) | (63,047) | |
| Payment to Component Unit | 8,852 | | | | | (8,852) | (8,852) | |
| Unemployment | 114,136 | 62,836 | | | | (51,300) | (51,300) | |
| Total business-type activities | 977,498 | 1,045,533 | | 92,680 | | 160,715 | 160,715 | |
| Total primary government | $ 4,881,854 | $ 1,473,739 | $ 894,779 | $ 92,680 | | | | |
| **Component units:** | | | | | | | | |
| Delaware State Housing Authority | $ 72,993 | $ 30,932 | $ 43,240 | $ 421 | | | | $ 1,600 |
| Diamond State Port Corporation | 29,245 | 25,708 | | 348 | | | | (3,189) |
| Riverfront Development Corporation | 6,780 | 1,686 | 262 | 10,261 | | | | 5,429 |
| Delaware State University | 68,734 | 23,917 | 15,870 | 114 | | | | (28,833) |
| Delaware Technical & Community College (DTCC) Educational Foundation | 648 | 48 | 762 | | | | | 162 |
| Delaware Charter Schools | 47,938 | 1,488 | 4,894 | 245 | | | | (41,311) |
| Total component units | $ 226,338 | $ 83,779 | $ 65,028 | $ 11,389 | | | | (66,142) |
| **General Revenues** | | | | | | | | |
| Taxes: | | | | | | | | |
| Personal income | | | | | 777,969 | | 777,969 | |
| Business | | | | | 1,356,081 | | 1,356,081 | |
| Other | | | | | 240,296 | | 240,296 | |
| Real estate | | | | | 289,346 | | 289,346 | |
| Payments from primary government | | | | | | | | 84,165 |
| Investment earnings | | | | | 36,109 | 18,261 | 54,370 | 6,715 |
| Gain (Loss) on sale of assets | | | | | (2,482) | (654) | (3,136) | (943) |
| Impairment of assets | | | | | | | | (2,106) |
| Miscellaneous | | | | | 37,105 | | 37,105 | 1,088 |
| **Transfers** | | | | | 242,560 | (242,560) | | |
| Total General Revenues and Transfers | | | | | 2,976,984 | (224,953) | 2,752,031 | 88,919 |
| Change in Net Assets | | | | | 395,613 | (64,238) | 331,375 | 22,777 |
| **Net Assets - Beginning of Year (as restated)** | | | | | 1,633,288 | 3,018,012 | 4,651,300 | 530,091 |
| **Net Assets - End of Year** | | | | | $ 2,028,901 | $ 2,953,774 | $ 4,982,675 | $ 552,868 |

See Accompanying Notes to the Financial Statements

**STATE OF DELAWARE**
**COMBINED BALANCE SHEET**
**GOVERNMENTAL FUNDS**
**JUNE 30, 2004**
(Expressed in Thousands)

| | General | Federal | Local School District | Capital Projects | Total Governmental Funds |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash and cash equivalents | $ 527,829 | $ 167 | $ 8,656 | | $ 536,652 |
| Investments | 888,181 | | 145,136 | $ 56,546 | 1,089,863 |
| Accounts receivable, net | 51,908 | 3,641 | 156 | | 55,705 |
| Taxes receivable, net | 77,175 | | 15,837 | | 93,012 |
| Intergovernmental receivables, net | 176 | 77,899 | | | 78,075 |
| Due from other funds | 29,575 | 339 | | | 29,914 |
| Inventories | 3,765 | 119 | 41 | | 3,925 |
| Prepaid items | 10,539 | 11,861 | | | 22,400 |
| Loans and notes receivable | 77,742 | 14,840 | | | 92,582 |
| **Total assets** | $ 1,666,890 | $ 108,866 | $ 169,826 | 56,546 | $ 2,002,128 |
| **LIABILITIES AND FUND BALANCES** | | | | | |
| **Liabilities:** | | | | | |
| Accounts payable | $ 223,794 | $ 46,566 | $ 41,995 | $ 12,941 | $ 325,296 |
| Accrued liabilities | 47,212 | | | | 47,212 |
| Claims and judgments | 228 | | | | 228 |
| Escheat liability | 7,000 | | | | 7,000 |
| Intergovernmental payables | | 438 | | | 438 |
| Due to other funds | | 27,852 | | | 27,852 |
| Other obligations | 428 | | | | 428 |
| Deferred revenues | 172,316 | 18,610 | 13,638 | | 204,564 |
| **Total liabilities** | 450,978 | 93,466 | 55,633 | 12,941 | 613,018 |
| **Fund balances** | | | | | |
| Reserved for: | | | | | |
| Encumbrances | 124,301 | 46,842 | 12,791 | 106,547 | 290,481 |
| Inventories | 3,765 | 119 | 41 | | 3,925 |
| Prepaid items | 10,539 | 11,861 | | | 22,400 |
| Budgetary reserve | 148,150 | | | | 148,150 |
| Unreserved (deficit) | 929,157 | (43,422) | 101,361 | (62,942) | 924,154 |
| **Total fund balances** | 1,215,912 | 15,400 | 114,193 | 43,605 | 1,389,110 |
| **Total liabilities and fund balances** | $ 1,666,890 | $ 108,866 | $ 169,826 | $ 56,546 | $ 2,002,128 |

See Accompanying Notes to the Financial Statements

**STATE OF DELAWARE**
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**
**TO THE STATEMENT OF NET ASSETS**
(Expressed in Thousands)

| | | |
|---|---|---|
| **Total Fund Balances - Governmental Funds** | | $ 1,389,110 |
| Amounts reported for governmental activities in the statement of net assets are different because: | | |
| Net capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of: | | |
| Land | $ 327,811 | |
| Land improvements | 40,096 | |
| Buildings | 1,141,681 | |
| Easements | 66,822 | |
| Equipment and vehicles | 42,897 | |
| Construction in progress | 203,263 | |
| | | 1,822,570 |
| Some of the State's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds. | | 200,749 |
| Some liabilities net of related assets are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of: | | |
| Interest payable | $ (21,487) | |
| Claims and judgments (long-term) | (74,719) | |
| Compensated absences | (117,168) | |
| Pension obligation | (88,618) | |
| General obligation long-term debt and related accounts | (1,051,124) | |
| Other long term obligations | (2,412) | |
| Escheat liability | (28,000) | |
| | | (1,383,528) |
| **Net assets of governmental activities** | | $ 2,028,901 |

See Accompanying Notes to the Financial Statements

**STATE OF DELWARE**
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICITS)**
**GOVERNMENTAL FUNDS**
**FOR THE YEAR ENDED JUNE 30, 2004**
(Expressed in Thousands)

| | General | Federal | Local School District | Capital Projects | Total Governmental Funds |
|---|---|---|---|---|---|
| **REVENUES** | | | | | |
| Personal taxes | $ 782,369 | | | | $ 782,369 |
| Business taxes | 1,359,569 | | | | 1,359,569 |
| Other tax revenue | 240,939 | | $ 290,745 | | 531,684 |
| Licenses, fees, permits and fines | 295,379 | $ 31 | 828 | | 296,238 |
| Rentals and sales | 22,347 | 14 | 29,432 | | 51,793 |
| Federal government | 70,735 | 841,798 | 1,347 | | 913,880 |
| Interest & other investment income | 30,713 | 9 | 5,284 | $ 103 | 36,109 |
| Other | 253,259 | | 41,825 | 3 | 295,087 |
| **TOTAL REVENUES** | 3,055,310 | 841,852 | 369,461 | 106 | 4,266,729 |
| **EXPENDITURES** | | | | | |
| Current: | | | | | |
| General government | 406,179 | 16,606 | | | 422,785 |
| Health and children's services | 847,665 | 560,311 | | | 1,407,976 |
| Judicial and public safety | 410,876 | 28,764 | | | 439,640 |
| Natural resources and environmental control | 131,469 | 34,491 | | | 165,960 |
| Labor | 27,649 | 35,067 | | | 62,716 |
| Education | 1,023,950 | 132,245 | 345,042 | | 1,501,237 |
| Payment to component unit - | | | | | |
| General government | 1,952 | | | | 1,952 |
| Education | 67,900 | 2,461 | | 3,000 | 73,361 |
| Capital outlay | | | | 162,154 | 162,154 |
| Debt service: | | | | | |
| Principal | 94,522 | | | | 94,522 |
| Interest and other charges | 39,246 | | | | 39,246 |
| Costs of issuance of debt | | | | 515 | 515 |
| **TOTAL EXPENDITURES** | 3,051,408 | 809,945 | 345,042 | 165,669 | 4,372,064 |
| **REVENUES OVER (UNDER) EXPENDITURES** | 3,902 | 31,907 | 24,419 | (165,563) | (105,335) |
| **OTHER SOURCES (USES) OF FINANCIAL RESOURCES** | | | | | |
| Transfers in | 399,037 | | 16,849 | | 415,886 |
| Transfers out | (56,198) | (1) | (38,668) | (78,459) | (173,326) |
| Issuance of general obligation bonds | | | | 327,218 | 327,218 |
| Premiums on bond sales | | | | 22,048 | 22,048 |
| Payment to bond refunding agent | (79,882) | | | | (79,882) |
| **TOTAL OTHER SOURCES (USES) OF FINANCIAL RESOURCES** | 262,957 | (1) | (21,819) | 270,807 | 511,944 |
| **Net change in fund balances** | 266,859 | 31,906 | 2,600 | 105,244 | 406,609 |
| Fund balances (deficits) - beginning | 949,053 | (16,506) | 111,593 | (61,639) | 982,501 |
| Fund balances - ending | $ 1,215,912 | $ 15,400 | $ 114,193 | $ 43,605 | $ 1,389,110 |

See Accompanying Notes to the Financial Statements

**STATE OF DELAWARE**
**Reconciliation of the Net Changes in Fund Balances - Total Governmental Funds to Change in Net Assets of Governmental Activities**
(Expressed in Thousands)

| | | |
|---|---|---|
| **Net Changes in Fund Balances** | | $ 406,609 |
| Amounts reported for governmental activities in the statement of activities are different because: | | |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. | | 183,375 |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | | 13,446 |
| Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. Components of the debt related adjustments consist of | | |
| Debt service principal repayments | 94,522 | |
| New debt issued (face value) | (327,218) | |
| Premium received | (22,048) | |
| Payment to refunding agent | 79,882 | |
| Issuance costs | 515 | |
| Amortization of premium/issuance costs | 1,936 | |
| | | (172,411) |
| Some expenses reported in the statement of activities do not require the use of current financial resources and therefore, the changes in these liabilities are not reported as expenditures in the governmental funds: | | |
| Accrued interest expense | | (12,891) |
| Claims and judgements | | (10,415) |
| Compensated absences | | (4,634) |
| Pension obligation | | (8,041) |
| Physician loan and scholarships | | 575 |
| **Change in Net Assets of Governmental Activities** | | $ 395,613 |

See Accompanying Notes to the Financial Statements

**STATE OF DELAWARE**
**STATEMENT OF NET ASSETS**
**PROPRIETARY FUNDS**
**JUNE 30, 2004**
(Expressed in Thousands)

| | Business-Type Activities - Enterprise Funds | | | |
|---|---|---|---|---|
| | **Unemployment** | **Lottery** | **DELDOT** | **Total** |
| **Asset** | | | | |
| Current Assets: | | | | |
| Cash and cash equivalents | $ 229,535 | $ 10,848 | $ 23,004 | $ 263,387 |
| Cash and cash equivalents - restricted | | | 1,583 | 1,583 |
| Investments | | | 155,127 | 155,127 |
| Investments - restricted | | 2,468 | | 2,468 |
| Accounts receivable, net | 6,908 | 4,539 | 4,188 | 15,635 |
| Taxes receivable, net | 15,682 | | | 15,682 |
| Intergovernmental receivables, net | 507 | | 5,009 | 5,516 |
| Interest receivable | | | 921 | 921 |
| Inventories | | | 10,457 | 10,457 |
| Prepaid items | | 422 | 72 | 494 |
| Total current assets | 252,632 | 18,277 | 200,361 | 471,270 |
| Noncurrent assets: | | | | |
| Investments | | | 73,160 | 73,160 |
| Investments - restricted | | 9,318 | | 9,318 |
| Interest receivable | | | 1,259 | 1,259 |
| Loans and notes receivable | | | 27,074 | 27,074 |
| Other assets | | 1,718 | | 1,718 |
| Capital assets, non-depreciable | | | 3,262,154 | 3,262,154 |
| Capital assets, depreciable, net | | 330 | 114,523 | 114,853 |
| Total noncurrent assets | | 11,366 | 3,478,170 | 3,489,536 |
| Total assets | 252,632 | 29,643 | 3,678,531 | 3,960,806 |
| **Liabilities** | | | | |
| Current liabilities | | | | |
| Accounts payable | | 10,195 | 44,434 | 54,629 |
| Accrued liabilities | 31,331 | | 4,809 | 36,140 |
| Interest payable | | | 20,238 | 20,238 |
| Deferred revenue | | | 3,032 | 3,032 |
| Compensated absences | | | 3,481 | 3,481 |
| Claims and judgments | | | 2,224 | 2,224 |
| Prizes liability | | 7,780 | | 7,780 |
| Escrow deposits | | | 1,570 | 1,570 |
| Current portion of revenue bonds | | | 53,920 | 53,920 |
| Tax refunds payable | 1,471 | | | 1,471 |
| Due to other funds | | 1,723 | 339 | 2,062 |
| Total current liabilities | 32,802 | 19,698 | 134,047 | 186,547 |
| Noncurrent Liabilities | | | | |
| Compensated absences | | | 7,610 | 7,610 |
| Claims and judgments | | | 12,590 | 12,590 |
| Liabilities payable from restricted assets | | 9,318 | | 9,318 |
| Revenue bonds | | | 761,585 | 761,585 |
| Bonds issue premium, net | | | 29,382 | 29,382 |
| Total noncurrent liabilities | | 9,318 | 811,167 | 820,485 |
| Total liabilities | 32,802 | 29,016 | 945,214 | 1,007,032 |
| **Net assets** | | | | |
| Invested in capital assets, net of related debt | | 330 | 2,561,172 | 2,561,502 |
| Restricted for: | | | | |
| Unemployment benefits | 219,830 | | | 219,830 |
| Other | | | 14 | 14 |
| Unrestricted | | 297 | 172,131 | 172,428 |
| Total net assets | $ 219,830 | $ 627 | $ 2,733,317 | $ 2,953,774 |

See Accompanying Notes to the Financial Statements

**STATE OF DELAWARE**
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**
**PROPRIETARY FUNDS**
**FOR THE YEAR ENDED JUNE 30, 2004**
(Expressed in thousands)

| | Business-Type Activities - Enterprise Funds | | | |
|---|---|---|---|---|
| | **Unemployment** | **Lottery** | **DELDOT** | **Total** |
| **Operating revenues** | | | | |
| Unemployment taxes | $ 62,836 | | | $ 62,836 |
| Gaming revenue | | $ 640,925 | | 640,925 |
| Pledged revenues | | | | |
| Turnpike revenue | | | $ 62,861 | 62,861 |
| Motor vehicle and related revenue | | | 222,888 | 222,888 |
| Turnpike revenue | | | 27,101 | 27,101 |
| Passenger fares | | | 8,938 | 8,938 |
| Miscellaneous | | | 19,984 | 19,984 |
| Total operating revenues | 62,836 | 640,925 | 341,772 | 1,045,533 |
| **Operating expenses** | | | | |
| Unemployment benefits | 114,136 | | | 114,136 |
| Cost of sales | | 298,193 | | 298,193 |
| Prizes | | 53,191 | | 53,191 |
| Transportation | | | 421,284 | 421,284 |
| Depreciation | | 55 | 19,540 | 19,595 |
| General and administrative | | 5,572 | 22,317 | 27,889 |
| Payment to component unit | | | 8,852 | 8,852 |
| Total operating expenses | 114,136 | 357,011 | 471,993 | 943,140 |
| Operating income (loss) | (51,300) | 283,914 | (130,221) | 102,393 |
| **Nonoperating revenues (expenses)** | | | | |
| Interest and investment revenue | 14,350 | | 3,911 | 18,261 |
| Interest expense | | | (34,358) | (34,358) |
| Loss on disposal of assets | | | (654) | (654) |
| Total nonoperating revenues (expenses) | 14,350 | | (31,101) | (16,751) |
| Income (loss) before transfers and capital contributions | (36,950) | 283,914 | (161,322) | 85,642 |
| Capital contributions | | | 92,680 | 92,680 |
| Transfers in | | | 42,250 | 42,250 |
| Transfers out | | (284,188) | (622) | (284,810) |
| Change in net assets | (36,950) | (274) | (27,014) | (64,238) |
| **Total net assets - beginning (as restated)** | 256,780 | 901 | 2,760,331 | 3,018,012 |
| **Total net assets - ending** | $ 219,830 | $ 627 | $ 2,733,317 | $ 2,953,774 |

See Accompanying Notes to the Financial Statements

**STATE OF DELAWARE**
**STATEMENT OF CASH FLOWS**
**PROPRIETARY FUNDS**
**FOR THE YEAR ENDED JUNE 30, 2004**
(Expressed in thousands)

| | Business-Type Activities-Enterprise Funds | | | |
|---|---|---|---|---|
| | **Unemployment** | **Lottery** | **DELDOT** | **Total** |
| **Cash flows from operating activities** | | | | |
| Receipts from employers | $ 61,390 | | | $ 61,390 |
| Payments for insurance claims | (112,228) | | $ (3,217) | (115,445) |
| Receipts from customers and users | | $ 650,025 | 335,999 | 986,024 |
| Other operating receipts | | | 2,708 | 2,708 |
| Payments to suppliers for goods and services | | (41,467) | (465,847) | (507,314) |
| Payments to employees for services | | (1,441) | | (1,441) |
| Payments for prizes | | (60,291) | | (60,291) |
| Payment for commissions | | (259,908) | | (259,908) |
| Net cash provided (used) by operating activities | (50,838) | 286,918 | (130,357) | 105,723 |
| **Cash flows from noncapital financing activities** | | | | |
| Transfers in | | | 42,250 | 42,250 |
| Transfers out | | (283,837) | (622) | (284,459) |
| Net cash provided (used) by noncapital financing activities | | (283,837) | 41,628 | (242,209) |
| **Cash flows from capital and related financing activities** | | | | |
| Capital grants | | | 92,445 | 92,445 |
| Purchases of capital assets | | | (37,963) | (37,963) |
| Principal paid on capital debt | | | (47,640) | (47,640) |
| Interest paid on capital debt | | | (38,300) | (38,300) |
| Proceeds from sale of equipment | | | 840 | 840 |
| Other receipts | | | 428 | 428 |
| Net cash provided (used) by capital and related financing activities | | | (30,190) | (30,190) |
| **Cash flows from investing activities** | | | | |
| Interest and investment revenues | 14,350 | | 5,029 | 19,379 |
| Purchase of investments | | | (7,460) | (7,460) |
| Proceeds from sales and maturities of investments | | 3,154 | 133,155 | 136,309 |
| Net cash provided by investing activities | 14,350 | 3,154 | 130,724 | 148,228 |
| **Net increases (decrease) in cash/cash equivalents** | (36,488) | 6,235 | 11,805 | (18,448) |
| **Cash/cash equivalents - beginning of year** | 266,023 | 4,613 | 12,782 | 283,418 |
| **Cash/cash equivalents - end of year** | $ 229,535 | $ 10,848 | $ 24,587 | $ 264,970 |
| **Reconciliation of operating income (loss) to net cash used by operating activities** | | | | |
| Operating Income (loss) | $ (51,300) | $ 283,914 | $ (130,221) | $ 102,393 |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities: | | | | |
| Depreciation expense | | 55 | 19,540 | 19,595 |
| Decrease (increase) in assets: | | | | |
| Decrease (increase) in receivables, net | (1,180) | 9,099 | (55) | 7,864 |
| Decrease (increase) in inventories | | | (2,573) | (2,573) |
| Decrease (increase) in prepaid items | | 3 | (72) | (69) |
| Increase (decrease) in liabilities | | | | |
| Increase (decrease) in accounts and other payables | 1,418 | 869 | (13,219) | (10,932) |
| Increase (decrease) in accrued liabilities | 245 | 78 | (3,009) | (2,686) |
| Increase (decrease) in accrued expenses | | (7,100) | (1,275) | (8,375) |
| Increase (decrease) in accrued payroll and related expenses | | | 527 | 527 |
| Increase (decrease) in due to/from other governments | (21) | | | (21) |
| Net cash provided (used) by operating activities | $ (50,838) | $ 286,918 | $ (130,357) | $ 105,723 |

See Accompanying Notes to the Financial Statements

**STATE OF DELAWARE**
**STATEMENT OF FIDUCIARY NET ASSETS**
**FIDUCIARY FUNDS**
**JUNE 30, 2004**
(Expressed in thousands)

| | Pension Trust Funds | Investment Trust Funds | Agency Funds |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | $ 10,335 | | $ 21,619 |
| Receivables: | | | |
| Employer contributions | 4,451 | | |
| Member contributions | 1,855 | | |
| Other receivables | | | 20,009 |
| Investments, at fair value: | | | |
| Domestic fixed income | 976,246 | $ 2,714 | |
| Domestic equities | 1,642,119 | 4,566 | |
| Pooled equity & fixed income | 1,322,188 | 3,676 | |
| Managed futures | 106,973 | 297 | |
| Private investments | 497,963 | 1,384 | |
| Short term investments | 134,782 | 374 | 8,512 |
| Foreign equities | 810,629 | 2,254 | |
| Total assets | 5,507,541 | 15,265 | 50,140 |
| **Liabilities** | | | |
| Accounts payable | 530 | | 50,140 |
| Benefits payable | 722 | | |
| Accrued administrative expenses | 327 | | |
| Total liabilities | 1,579 | | 50,140 |
| **Net Assets** | | | |
| Assets held in trust for pension benefits and pool participants | $ 5,505,962 | $ 15,265 | $ |

See Accompanying Notes to the Financial Statements

**STATE OF DELAWARE**
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**
**FIDUCIARY FUNDS**
**FOR THE YEAR ENDED JUNE 30, 2004**
(Expressed in thousands)

| | Pension Trust Funds | Investment Trust Funds |
|---|---|---|
| **Additions** | | |
| Contributions: | | |
| Employer contributions | $ 106,523 | |
| Transfer of assets from outside the system | 5,666 | $ 2,852 |
| Member contributions | 40,981 | |
| Other | 14 | |
| Total contributions | 153,184 | 2,852 |
| Investments: | | |
| Investment earnings | 122,574 | 341 |
| Net increase in fair value of investments | 661,423 | 1,537 |
| Total investment earnings | 783,997 | 1,878 |
| Less investment manager/advisor/custody fees | (16,756) | (46) |
| Less investment administrative expenses | (292) | (1) |
| Net investment earnings | 766,949 | 1,831 |
| Total additions | 920,133 | 4,683 |
| **Deductions** | | |
| Transfer of assets outside the system | 5,356 | |
| Pension payments | 267,172 | |
| Refunds of contributions to members | 2,592 | |
| Group life payments | 4,563 | |
| Administrative expenses | 4,622 | |
| Total deductions | 284,305 | |
| **Change in net assets** | 635,828 | 4,683 |
| **Net assets - beginning of year** | 4,870,134 | 10,582 |
| **Net assets - end of year** | $ 5,505,962 | $ 15,265 |

See Accompanying Notes to the Financial Statements

**STATE OF DELAWARE**
**COMBINING STATEMENT OF NET ASSETS**
**COMPONENT UNITS**
**JUNE 30, 2004**
(Expressed in Thousands)

| | Delaware State Housing Authority | Diamond State Port Corporation | Riverfront Development Corporation | Delaware State University | DTCC * Educational Foundation | Delaware Charter Schools | All Component Units Total |
|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | |
| **Current assets:** | | | | | | | |
| Cash and cash equivalents | $ 166 | $ 1,673 | $ 1,011 | $ 13,392 | $ 46 | $ 9,088 | $ 25,376 |
| Cash and cash equivalents - restricted | | 4,270 | 136 | 60 | | 13 | 4,479 |
| Investments | 34,924 | | | | 2,293 | | 37,217 |
| Investments - restricted | | | | | 2,728 | | 2,728 |
| Accounts and other receivables, net | 18,301 | 2,721 | 126 | 6,707 | | 388 | 28,243 |
| Loans and notes receivable, net | 56,905 | | | | 2 | | 56,907 |
| Inventories | | 540 | 11 | | | | 551 |
| Prepaid items | 2,554 | 680 | 19 | | | 135 | 3,388 |
| Deferred bond issuance costs | 595 | | | | | | 595 |
| Other restricted assets | | | | 1,137 | | | 1,137 |
| Other current assets | | | | 1,181 | | 82 | 1,263 |
| **Total current assets** | 113,445 | 9,884 | 1,303 | 22,477 | 5,069 | 9,706 | 161,884 |
| **Noncurrent Assets:** | | | | | | | |
| Long-term investments | 88,830 | | 4,713 | | | | 93,543 |
| Long-term investments - restricted | | | 10,000 | 14,885 | | | 24,885 |
| Accrued interest receivable | 2,500 | | | | | | 2,500 |
| Loans and notes receivable, net | 349,104 | | 2,865 | 560 | | | 352,529 |
| Capital assets - non-depreciable | 3,219 | 25,573 | 31,231 | 15,324 | | 2,471 | 77,818 |
| Capital assets - depreciable, net | 17,850 | 124,350 | 23,113 | 121,640 | | 32,619 | 319,572 |
| Deferred bond issuance costs | 4,426 | | | 226 | | 89 | 4,741 |
| Other restricted assets | | | | 2,271 | 2,765 | | 5,036 |
| Other noncurrent assets | | | 3,830 | 257 | 59 | 607 | 4,753 |
| **Total noncurrent assets** | 465,929 | 149,923 | 75,752 | 155,163 | 2,824 | 35,786 | 885,377 |
| **Total assets** | 579,374 | 159,807 | 77,055 | 177,640 | 7,893 | 45,492 | 1,047,261 |
| **LIABILITIES** | | | | | | | |
| **Current liabilities:** | | | | | | | |
| Accounts payable | 4,657 | 204 | 508 | 3,893 | 110 | 2,706 | 12,078 |
| Accrued liabilities | 1,022 | 1,950 | 181 | 5,444 | | 3,224 | 11,821 |
| Deferred revenue | 161 | 195 | 12 | | | 24 | 392 |
| Current portion - capital leases | | 32 | | 384 | | | 416 |
| Compensated absences | 13 | | | | | | 13 |
| Escrow deposits | | | 8 | | | 79 | 87 |
| Notes payable | 4,677 | 3,301 | | 100 | | | 8,078 |
| Current portion of revenue bonds | 8,841 | | 200 | 955 | | | 9,996 |
| Current portion of other long-term debt | | | 828 | | | 1,142 | 1,970 |
| **Total current liabilities** | 19,371 | 5,682 | 1,737 | 10,776 | 110 | 7,175 | 44,851 |
| **Noncurrent liabilities:** | | | | | | | |
| Compensated absences | 756 | | | | | | 756 |
| Capital leases | | 32 | | 1,776 | | | 1,808 |
| Escrow deposits | 30,374 | | | | | | 30,374 |
| Notes payable | 601 | 49,734 | | 433 | | | 50,768 |
| Revenue bonds | 298,372 | | 4,985 | 29,286 | | | 332,643 |
| Long -term debt | | | 7,421 | | | 25,400 | 32,821 |
| Other noncurrent liabilities | 372 | | | | | | 372 |
| **Total noncurrent liabilities** | 330,475 | 49,766 | 12,406 | 31,495 | | 25,400 | 449,542 |
| **Total liabilities** | 349,846 | 55,448 | 14,143 | 42,271 | 110 | 32,575 | 494,393 |
| **NET ASSETS** | | | | | | | |
| Invested in capital assets, net of related debt | 21,069 | 96,826 | 40,909 | 106,826 | | 11,155 | 276,785 |
| Restricted | | | | | | | |
| Federal and state regulations | 148,389 | | | 4,445 | 5,554 | | 158,388 |
| Bond covenants | 26,122 | | | | | | 26,122 |
| Capital projects | | 4,270 | 9,990 | 7,246 | | | 21,506 |
| Other | 14,087 | | | 10,528 | | 828 | 25,443 |
| Unrestricted | 19,861 | 3,263 | 12,013 | 6,324 | 2,229 | 934 | 44,624 |
| **Total net assets** | $ 229,528 | $ 104,359 | $ 62,912 | $ 135,369 | $ 7,783 | $ 12,917 | $ 552,868 |

* Fiscal year end December 31, 2003

See Accompanying Notes to Financial Statements

**STATE OF DELAWARE**
**COMBINING STATEMENT OF ACTIVITIES**
**COMPONENT UNITS**
**FOR THE YEAR ENDED JUNE 30, 2004**
(Expressed in Thousands)

| | | Program Revenues | | |
|---|---|---|---|---|
| | **Expenses** | **Charges for Services** | **Operating Grants and Contributions** | **Capital Grants and Contributions** |
| Component Units: | | | | |
| Delaware State Housing Authority | $ 72,993 | $ 30,932 | $ 43,240 | $ 421 |
| Diamond State Port Corporation | 29,245 | 25,708 | | 348 |
| Riverfront Development Corporation | 6,780 | 1,686 | 262 | 10,261 |
| Delaware State University | 68,734 | 23,917 | 15,870 | 114 |
| Delaware Technical & Community College (DTCC) Educational Foundation | 648 | 48 | 762 | |
| Delaware Charter Schools | 47,938 | 1,488 | 4,894 | 245 |
| Total component units | $ 226,338 | $ 83,779 | $ 65,028 | $ 11,389 |

**General Revenues**

Payments from primary governments

Investment earnings (loss)

Gain (Loss) on sale of assets

Impairment of Assets

Miscellaneous

Total general revenues

Change in net assets

**Net assets - beginning of year (as restated)**

**Net assets - end of year**

* Fiscal year ended December 31, 2003

See Accompanying Notes to the Financial Statements

| Net (Expense) Revenue and Changes in Net Assets | | | | | | |
|---|---|---|---|---|---|---|
| Delaware State Housing Authority | Diamond State Port Corporation | Riverfront Development Corporation | Delaware State University | DTCC * Educational Foundation | Delaware Charter Schools | Totals |
| $ 1,600 | | | | | | $ 1,600 |
| | $ (3,189) | | | | | (3,189) |
| | | $ 5,429 | | | | 5,429 |
| | | | $ (28,833) | | | (28,833) |
| | | | | $ 162 | | 162 |
| | | | | | $ (41,311) | (41,311) |
| | | | | | | (66,142) |
| | 5,015 | 5,789 | 33,805 | | 39,556 | 84,165 |
| 4,854 | 28 | (29) | 1,375 | 330 | 157 | 6,715 |
| | (598) | (344) | | (1) | | (943) |
| | | | | (2,106) | | (2,106) |
| | | 500 | | | 588 | 1,088 |
| 4,854 | 4,445 | 5,916 | 35,180 | (1,777) | 40,301 | 88,919 |
| 6,454 | 1,256 | 11,345 | 6,347 | (1,615) | (1,010) | 22,777 |
| 223,074 | 103,103 | 51,567 | 129,022 | 9,398 | 13,927 | 530,091 |
| $ 229,528 | $ 104,359 | $ 62,912 | $ 135,369 | $ 7,783 | $ 12,917 | $ 552,868 |

See Accompanying Notes to the Financial Statements

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the State of Delaware (the State) have been prepared in conformity with Accounting Principles Generally Accepted in the United States (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

### (a) Reporting Entity

The accompanying financial statements present the State's primary government and include all funds, elected officials, departments and agencies, bureaus, boards, commissions, and authorities that make up the State's legal entity. The State's nineteen local school districts, which are not legally separate, are included in the reporting entity of the primary government. The DelDOT enterprise fund, which includes the Transportation Trust Fund and the Delaware Transit Corporation, is also included in the reporting entity of the primary government. The State's reporting entity is also comprised of its component units, entities for which the State is considered to be financially accountable. Blended component units, although legally separate entities, are in substance part of the State's operations. Discretely presented component units are reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the State.

Financial accountability is defined in GASB Statement No.14, "The Financial Reporting Entity." The State is financially accountable for legally separate organizations if it appoints a voting majority of the organization's board and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the State. The State may also be financially accountable if an organization is fiscally dependent on the State regardless of whether the organization has a separately elected governing board, a governing board appointed by a higher level of government, or a jointly appointed board.

In May 2002, the GASB issued Statement No. 39 - *Determining Whether Certain Organizations are Component Units.* This Statement amends GASB Statement No. 14 by providing additional guidance in determining if certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with the primary government. The State has implemented the provisions of this Statement for the fiscal year ended June 30, 2004. This resulted in the addition of the Delaware Technical and Community College (DTCC) Educational Foundation to the discretely presented component units.

### Blended Component Unit

The Delaware Public Employees' Retirement System (DPERS) is a public employee retirement system, which covers substantially all State employees. The DPERS is a legally separate entity, however, as it provides services and benefits almost exclusively to the primary government, the DPERS is considered a blended component unit and is shown in the financial statements as part of the primary government as a pension trust fund. The financial report of DPERS for the year ended June 30, 2004 may be obtained by writing to the State Board of Pension Trustees and Office of the Pensions, McArdle Building, and Suite #1, 860 Silver Lake Boulevard, Dover, DE 19904-2402.

### Discretely Presented Component Units

The following component units are entities that are legally separate from the State, but are financially accountable to the State for reporting purposes, or whose relationship with the State is such that exclusion would cause the State's financial statements to be misleading or incomplete. The component units column of the basic financial statements includes the financial data of these entities. Except for the Delaware Technical and Community College Educational Foundation, which has a fiscal year end of December 31, 2003, each discretely presented component unit has a June 30, 2004 fiscal year end.

### Delaware State Housing Authority

The Delaware State Housing Authority (DSHA) is a public corporation whose Director is appointed by and reports directly to the Governor of the State. The Authority administers the role of providing affordable housing as a key aspect of State policy. The Authority's relationship with the State is such that exclusion of the Authority from the State's basic financial statements would cause the statements to be misleading or incomplete. The Authority is authorized, among other things, to (1) make mortgage, construction and other loans to not-for-profit and limited for-profit housing sponsors, (2) make loans to mortgage lenders, requiring the proceeds thereof to be used for making newly qualified residential mortgage loans, (3) purchase qualified mortgage loans from mortgage lenders, and (4) apply for and receive assistance and subsidies under programs from the Federal Government and others.

### Diamond State Port Corporation

The Diamond State Port Corporation (DSPC) was organized as a body corporate and politic constituting a public instrumentality of the State. The DSPC is empowered to operate, improve and maintain the Port of Wilmington and related facilities. The Governor appoints six of the nine members of the board of directors with the advice and consent of the Senate. The DSPC's relationship with the State is such that exclusion of the DSPC from the State's general purpose financial statements would cause the statements to be misleading or incomplete.

**Riverfront Development Corporation**

The Riverfront Development Corporation (RDC) was formed to plan, develop and manage programs and projects intended to foster economic development along the Brandywine and Christina Rivers. The Governor appoints six of the 13 board members; however, five of the remaining seven directors consist of the Governor and four State officials. Authorization by the State's Budget Director and Controller General is required before funds of the RDC may be expended.

**Delaware State University**

Delaware State University (DSU) is a public institution of higher education funded primarily through State appropriations. Additional funding is derived from tuition, federal grants and private donations and grants. The Board of Trustees is comprised of 11 members, six appointed by the Governor of Delaware and five elected by the Trustees. The President of the University and the Governor of the State of Delaware serve as ex-officio members of the Board.

**Delaware Technical and Community College Educational Foundation**

Delaware Technical and Community College Educational Foundation (DTCC Foundation), a component unit of the Delaware Technical and Community College, was established on November 13, 1968 by a trust agreement. On April 20, 1999, the Foundation restated the trust document incorporating all previous amendments to the previous trust document. The trust agreement stipulates that the activities of the DTCC Foundation be limited to such educational purposes that come under Section 501(c)(3) of the Internal Revenue Code. Activities include, but are not limited to, making contributions, gifts or grants, or otherwise rendering financial aid and assistance by direct payments to the Delaware Technical and Community College (DTCC) and providing financial assistance to qualified students. The DTCC Foundation has a fiscal year end of December 31, 2003.

**Delaware Charter Schools**

Delaware Charter Schools are public schools funded primarily through State appropriations. Additional funding is derived from federal grants passed through from the primary government and private donations. Charter schools are each managed by a board of directors, which operate independently, under a charter granted by the State Department of Education with the approval of the State Board of Education. Charters are granted for an initial period of three years and renewable every five years thereafter. Financial information for Delaware Charter Schools is presented in the aggregate as they are individually immaterial.

Complete financial statements for each of the discretely presented component units may be obtained from their respective administrative offices or from the Office of the Auditor of Accounts, The Townsend Building, Suite #1, 401 Federal Street, Dover, DE 19901.

**Related Organizations**

Officials of the State's primary government appoint a voting majority of the governing board of the Delaware Solid Waste Authority. The primary government's accountability for the Authority does not extend beyond making the appointments. The financial activities of the Authority are not included in the State's financial statements.

The Governor appoints eight members of the governing board of the University of Delaware. The remaining twenty members are separately elected. The primary government' s accountability does not extend beyond State grants to the University. The financial activities of the University are not included in the State's financial statements.

**Jointly Governed Organization**

The Delaware River and Bay Authority, a body politic, was created with the intention of advancing the economic growth and development of those areas in the State of Delaware and the State of New Jersey, which border the Delaware River and Delaware Bay. The Authority is governed by twelve (12) commissioners: six appointed by the State of Delaware and six appointed by the State of New Jersey. The Authority is autonomous from a day-to-day operations perspective and neither State is obligated for the Authority's debt. The Authority is not included in these financial statements as the State of Delaware has no ongoing financial interest.

**Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the State and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the State is reported separately from certain legally separate component units for which the State is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues.

Separate fund financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual proprietary funds are reported in separate columns in the fund financial statements.

**(b) Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The State has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the State's enterprise operations and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers all revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt

service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Taxes, grants, fees, sales, rents, and interest income associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the State. Revenue related to expenditure driven grants is recognized when the qualifying expenditures have been incurred and all other grant requirements have been met.

**Governmental Funds**

The State reports the following major governmental funds:

*General Fund* - The general fund is the State's primary operating fund. It accounts for all financial resources obtained and used for those services traditionally provided by a state government, which are not required to be accounted for in other funds. These services include, among others, education, and health and social services.

*Federal Fund* - The federal fund accounts for all activities relating to the State's federal grant programs.

*Local School District Fund* - The local school district fund accounts for activities relating to the State's local school districts funded by locally raised real estate taxes and other revenue.

*Capital Projects Fund* - Transactions related to resources obtained and used for the acquisition or construction of major capital facilities (other than those financed by proprietary and fiduciary funds) are accounted for in the Capital Projects Fund. Such resources are derived principally from proceeds of general obligation bond issues, federal grants, and operating transfers from the General Fund.

**Proprietary Funds**

Proprietary Funds are used to account for those activities which are financed and operated in a manner similar to private business enterprises. The costs of providing services to the general public on a continuing basis are financed by or recovered primarily through user charges.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the unemployment fund, lottery fund and DelDOT fund are charges to customers for sales and services.

The Lottery recognizes revenue from on-line games the day of the drawing. Revenue from the sale of instant tickets is recognized when the book has been activated and 85% of the related prizes of an activated book are paid. Revenue from video lottery sales is recognized, net of prizes paid, at the time the public plays the game.

Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The State reports the following major proprietary funds:

*DelDOT Fund*- The DelDOT fund accounts for the activities relating to the operation of the State's Department of Transportation, including the Delaware Transportation Authority.

*Unemployment Fund* - The unemployment fund accounts for the activities relating to the State's unemployment insurance program.

*Lottery Fund* - The lottery fund accounts for the activities relating to the State Lottery program.

**Fiduciary Funds**

The accounts of the pension and investment trust funds are reported using the flow of economic resources measurement focus and are maintained on the accrual basis of accounting. For pension trust funds, employee contributions are recognized as revenue in the period in which the employee services are performed. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. Agency funds are custodial in nature and do not present results of operations and therefore do not have a measurement focus.

The State reports the following fiduciary funds:

*Agency Funds* - Agency funds are custodial in nature and do not involve measurement of the results of operations. They account for the receipt of various taxes, deposits, deductions, and certain property collected by the State, acting in the capacity of an agent, and for the distribution to other governmental units or designated beneficiaries.

*Pension Trust Funds* - Pension trust funds account for transactions, assets, liabilities and net assets available for plan benefits of the Delaware Public Employees' Retirement System (DPERS) (Note 14*).*

*Investment Trust Funds* - Investment trust funds are used to account for external investment pools where a government commingles the moneys of more than one legally separate entity and invests, on the participants' behalf, in an investment portfolio; one or more of the participants is not part of the sponsor's reporting entity. The investment trust fund accounts for the transactions, assets, liabilities and fund equity for the Delaware Public Employee Retirement System's external investment pool.

**(c) Assets, Liabilities, and Net Assets or Equity**

**Deposits and investments**

All highly liquid investments with maturities of three months or less when purchased are considered to be cash equivalents. For the purposes of the statement of cash flows, restricted cash is considered to be cash equivalents. Investment securities with maturities of greater than one year are reported as long-term investments.

Investment securities are stated at quoted market prices, except that investment securities with a remaining maturity at time of purchase of one year or less are stated at cost or amortized cost (Note 2). Investment securities with remaining maturities of greater than one year are identified as long-term investments.

**Receivables and Payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds" (i.e., the current portion of interfund loans). All trade and property tax receivables, including those for the component units, are shown net of an allowance for uncollectibles and refunds (Note 3).

**Inventories and Prepaid Items**

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**Restricted Assets**

When both restricted and unrestricted resources are available for use, it is the State's policy to use restricted resources first, and then unrestricted resources as they are needed.

The Delaware State Lottery's mandatory deposit with the Multi-State Lottery and the annuities for future installment prize payments are recorded as restricted assets, as are any assets of the Delaware State University, the Diamond State Port Corporation and the Riverfront Development Corporation that are subject to external restrictions.

**Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (which are normally immovable and of value only to the State, such as roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements, the proprietary funds and component units.

Capital assets are defined by the State as assets with an initial, individual cost of more than $15,000 at the date of acquisition and an estimated useful life in excess of one year. Such assets are recorded at historical cost if purchased or constructed, or estimated historical cost if the original cost is not determinable. Donated capital assets are recorded at estimated fair market value at the date of donation.

All land and buildings are capitalized, regardless of cost. Equipment and vehicles are capitalized when the cost of individual items exceeds $15,000. Building and land improvements are capitalized when the cost of the project exceeds $100,000. Infrastructure and software are capitalized when the costs of individual items or projects exceed $1 million.

The State possesses certain capital assets that have not been capitalized and depreciated, because the assets cannot be reasonably valued and/or the assets have inexhaustible useful lives. These assets include works of art and historical treasures, such as statues, monuments, historical documents, paintings, forts, miscellaneous capitol-related artifacts and furnishings. These assets are held for public exhibition, education or research in furtherance of public service rather than financial gain; they are protected, kept unencumbered, cared for and preserved; and they are subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Property, plant, and equipment of the primary government is depreciated using the straight line method over the following estimated useful lives:

| Asset | Primary Government Years | Component Units Years |
|---|---|---|
| Buildings and Building Improvements | 40 | 15 - 75 |
| Land Improvements | 20 | N/A |
| Furniture and Equipment | 3 - 10 | 3 - 40 |
| Vehicles | 7 | N/A |

The State has elected to use the "modified approach" to account for certain infrastructure assets. Under this process, the State does not record depreciation expense nor are amounts capitalized in connection with improvements to these assets, unless the improvements expand the capacity or efficiency of an asset. Utilization of this approach requires the State to: 1) commit to maintaining and preserving affected assets at or above a condition level established by the State, 2) maintain an inventory of the assets and perform periodic condition assessments to ensure that the condition level is being maintained, and 3) make annual estimates of the amounts that must be expended to maintain and preserve assets at the predetermined condition levels. Roads and bridges maintained by the Department of Transportation are accounted for using the modified approach.

**Compensated Absences**

It is the State's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. In the governmental fund financial statements, liabilities for compensated absences are accrued when they are considered "due and payable" and recorded in the fund only for separations or transfers that occur before year-end. In the government-wide and proprietary fund financial statements, the State has accrued a liability for compensated absences, recognizing the obligation to make payments.

**Long-Term Obligations**

In the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

**Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose.

The State Constitution provides that certain excess unencumbered budgetary General Funds at the end of a fiscal year must be placed in a reserve account (the "Budget Reserve Account"). This account, designed to provide a cushion against unanticipated deficits, may not exceed 5% of the estimated General Fund revenue for the ensuing fiscal year. Total funding of the Budget Reserve Account was $148.2 million at June 30, 2004. In the government-wide financial statements, restricted net assets represent balances that are subject to external restrictions or were created by enabling legislation.

### (d) Grants

Federal grants and assistance awards made on the basis of entitlement periods are recorded as intergovernmental receivables and revenues when entitlement occurs. All other federal reimbursement type grants are recorded as accounts receivable and revenue when the related expenditures or expenses are recognized. In addition to monetary transactions, Federal grants also include non-monetary transactions related to food stamps.

### (e) Litigation Revenue

In 1997, several states began litigation against defendant tobacco product manufacturers to recover certain amounts the states expended to provide health care to the users of tobacco products. In 1998, a settlement was reached which provided that the states cease litigation against the manufacturers. As part of the Master Settlement Agreement, certain manufacturers agreed to remit periodic payments to the states until 2025. Delaware's share of the estimated $200 billion settlement amounted to $774.5 million. Amounts to be remitted are calculated based on a variety of specific settlement provisions. Future tobacco product sales are one key factor used in determining periodic payment amounts. A receivable of $12.3 million has been recorded pursuant to the settlement. The Master Settlement agreement receipts are recorded in the General Fund as part of "other" revenue and as Miscellaneous general revenue on the Governmentwide Statement of Activities. Expenditures of monies received under the Master Settlement Agreement are authorized by legislation and are dedicated to health care and related programs.

## NOTE 2. CASH, INVESTMENTS AND RESTRICTED ASSETS

***The Cash Management Policy Board****:* The policy for the investment of State funds is the responsibility of the Cash Management Policy Board (the Board). The Board, created by State law, establishes policies for and the terms, conditions, and other matters relating to, the investment of all money belonging to the State except money in the DPERS and money held under the State deferred compensation program.

***Investment Guidelines and Management***: The investment guidelines, adopted by the Board provide, among other things, that no more than 10% of the portfolio may

be invested in obligations of any one issuer other than the U.S. Government. Investments may be made only in fixed income instruments with maturities of up to five years in certain circumstances.

***Collateralization Requirements**:* All State deposits are required by law to be collateralized by direct obligations of, or obligations which are guaranteed by, the United States of America, or other suitable obligations as determined by the Board, unless the Board shall find such collateralization not in the best interest of the State. The Board has determined that certificates of deposit and time deposits must be collateralized, unless the bank issuing the certificate has assets of not less than $5 billion and is rated not lower than "B" by Fitch, Inc. Bank Watch. The Board has also determined that State demand deposits need not be collateralized provided that any bank that holds these funds has had for the last two years, a return on average assets of 5% or greater and an average equity-capital ratio of at least 1:20. If the bank does not meet the above criteria, collateral must consist of one or more of the following:

(a) U.S. Government securities;

(b) U.S. Government agency securities;

(c) Federal Home Loan Board letters of credit;

(d) State of Delaware securities; or

(e) Securities of a political subdivision of the State with a Moody's Investors Service rating of "A" or better.

Additionally, the bank must ensure that those securities pledged as collateral have a market value equal to or greater than 102% of the ledger balance(s) in the account(s) each day and ensure that securities pledged are identified as held in the State's name and are segregated on the bank's records.

At June 30, 2004, the financial institutions maintaining the State’s investment pool satisfied the criteria listed above and were not subject to collateralization.

Cash and cash equivalents consist of demand deposits, short-term money market funds and other deposits held by financial institutions, generally with a maturity of three months or less when purchased. Cash and cash equivalents are reported as deposits.

Cash and cash equivalents, as reported on the statement of net assets, may be under the control of the State Treasurer or other administrative bodies as determined by the Cash Management Policy Board. All cash deposited with the State Treasurer by State agencies is maintained by the Treasurer in various pooled investment funds (State Investment Pool). The State Treasurer invests the deposited cash including the cash float in short-term securities and other investments.

An analysis of cash and investments by category of risk is presented on the following pages.

## (A) Deposits

### Primary Government

At June 30, 2004, the carrying value and the bank balances of the State's deposits were $833,576,000 and $841,295,000 respectively. Of the bank balances, $14,408,000 was insured by the Federal Deposit Insurance Corporation (FDIC) and/or collateralized with securities held by the State or by its agent in the State's name (Category 1). $465,448,000 is uninsured and uncollateralized (Category 3). $131,904,000 consists of repurchase agreements that cannot be categorized and the remaining $229,535,000 represents unemployment insurance taxes collected from Delaware employers that are held in escrow by the U.S. Treasury.

As a condition for operating in the State, various insurance companies have deposited an aggregate amount of $426,353,000 into escrow. The State Insurance Commission and the insurance companies are joint custodians of such funds. Because the State can neither use nor release these funds without the joint approval of the insurer/depositor, these amounts are not reported in the State's financial statements.

### Component Units

#### *Delaware State Housing Authority*

The Delaware State Housing Authority's deposits for risk categorization consist of checking accounts, money market accounts, bank savings accounts and investment agreements. The total carrying value and bank balance of the deposits at June 30, 2004 was $47,211,377, and $47,235,182 respectively. Of the bank balance, $2,238,174 was entirely insured or collateralized with securities held by the Authority or by its agent in the Authority's name (Category 1). The remaining $44,997,008 consists of investment agreements. For purposes of the financial statements, checking accounts reported as cash totaled $166,159. Money market accounts totaling $2,048,210 and all of the investment agreements were recorded as investments.

#### *Diamond State Port Corporation*

At June 30, 2004, the carrying value and bank balances of the Diamond State Port Corporation's cash deposits amounted to $1,672,521 and $1,868,186, respectively. Of the bank balances, $100,000 is insured by the FDIC (Category 1) and the remaining $1,768,186 is uninsured and uncollateralized (Category 3). $4,270,488 of restricted cash and cash equivalents consists of short-term investments.

### *Riverfront Development Corporation*

At June 30, 2004, the Riverfront Development Corporation's cash deposits carrying value and bank balances amounted to $1,146,817 and $1,285,967 respectively. Cash deposits include $135,465 of restricted cash and cash equivalents. Of the bank balances, $307,934 is insured by the FDIC (Category 1) and $973,461 is uninsured and uncollateralized (Category 3). The remaining $4,572 consists of deposits included in the State Investment Pool.

### *Delaware State University*

At June 30, 2004, Delaware State University's deposits carrying value and bank balance was $4,919,235 and $7,571,769 respectively. An additional $8,533,218 of cash and cash equivalents related to unexpended State appropriations are included on the Statement of Net Assets. Of the bank balances, $459,808 was insured by FDIC (Category 1) and the remaining $7,111,961 was uninsured and uncollateralized (Category 3).

### *Delaware Technical and Community College Educational Foundation*

At December 31, 2003, the DTCC Foundation’s cash deposits amounted to $46,143. All bank balances were insured by the FDIC.

### *Delaware Charter Schools*

At June 30, 2004, the Delaware Charter Schools deposits carrying value was $9,100,810. Deposits include $7,904,212 held in the State Investment Pool. Carrying value of the remainder of deposits was $1,196,598. Bank balances were $1,197,993 consisting of $468,624 insured by FDIC (Category 1) and $729,369 uninsured and uncollateralized (Category 3).

## B. Investments

### Primary Government

The table on the following page provides information about the custodial credit risks associated with the State's investments. Category 1 includes investments that are insured or registered or for which the securities are held by the State or its agent in the State's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent in the State's name. As of June 30, 2004, the State does not have any investments in Category 2. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the State's name.

The State's Investments below and on the following pages include $11,786,000 presented as restricted investments on the balance sheet. Pooled investments represent those investments in units of a pool rather than specific securities. As a result, such investments are not categorized as to risk because they are not evidenced by securities that exist in a physical or book-entry form.

**Primary Government Investments**

( Expressed in Thousands)

| Investment Type | Category 1 | Category 3 | Total Fair Value |
|---|---|---|---|
| Commercial Paper | $ 62,180 | $ 67,525 | $ 129,905 |
| U.S. Government Agency Securities | 168,899 | 360,320 | 529,219 |
| Corporate Obligations | | 271,893 | 271,893 |
| Government Agency Bonds and Notes | | 370,797 | 370,797 |
| Foreign Government Securities | | 21,507 | 21,507 |
| Municipal Bonds | | 20,563 | 20,563 |
| Pension and Investment Trust Funds: | | | |
| Domestic Fixed Income | 978,960 | | 978,960 |
| Domestic Equities | 1,646,685 | | 1,646,685 |
| Short Term and Money Market * | 135,156 | | 135,186 |
| Managed Futures | 107,270 | | 107,270 |
| Foreign Equities | 812,883 | | 812,883 |
| SUBTOTAL | $ 3,912,033 | $ 1,112,605 | 5,024,638 |
| Delaware Public Employees' Retirement System Pooled Investments not subject to categorization: ** | | | |
| Pooled Investments | | | 51,233 |
| Pension and Investment Trust Investment Pool: | | | |
| Pooled Equity & Fixed Income | | | 1,325,864 |
| Private Investments | | | 499,347 |
| SUBTOTAL INVESTMENTS | | | 6,901,082 |
| Less: Pooled Component Unit Investments | | | (56,469) |
| TOTAL STATE INVESTMENTS *** | | | $ 6,844,613 |

* Pension short-term investments primarily included commercial paper and overnight deposits.

** Investments not evidenced by securities are not categorized.

*** Includes investments classified as restricted assets on the Statement of Net Assets.

The table on the following page provides a reconciliation of cash and investments as presented in the financial statements and the balance reflected in the State's investment pool.

**Balance Sheet and Investment Pool Reconciliation**

| | Governmental Activities | Business Type Activities | Fiduciary Funds | Totals |
|---|---|---|---|---|
| Cash/Cash Equivalents | $ 536,652 | $ 263,387 | $ 31,954 | $ 831,993 |
| Restricted Cash/Cash Equivalents | | 1,583 | | 1,583 |
| Short Term Investments | 317,716 | 155,127 | 8,512 | 481,355 |
| Long Term Investments | 772,147 | 73,160 | | 845,307 |
| Restricted Investments | | 11,786 | 5,506,165 | 5,517,951 |
| | $ 1,626,515 | $ 505,043 | $ 5,546,631 | $ 7,678,189 |
| Less: Carry Value of Deposits | | | | (833,576) |
| Balance In State Investment Pool | | | | $ 6,844,613 |

The pooled investments of the pension and investment trust funds consist primarily of venture capital, limited partnerships, open-end mutual funds and real estate. The fair value of pension and investment trust investments is determined by quoted market values, where applicable. Investments in real estate pooled funds are determined based on appraised values. Venture capital and other limited partnership values are determined based on discounted market values where market quotes are available, and by various procedures for investments in non-traded partnerships where quotes are not available. In 1994, the Board of Pension Trustees of the DPERS adopted a formal written policy on the use of derivatives. Only a few selected managers are permitted to use derivatives. In every case, the types of derivatives used and limits on their use are spelled out in manager contracts and are monitored on an ongoing basis. The Board believes that it is unlikely that any of the derivatives used by managers of the DPERS could have a material adverse effect on the financial condition of the DPERS. Managers authorized to use derivatives do so to reduce foreign exchange risk and minimize transaction costs. Managers may also use derivatives as part of an overall strategy to enhance returns. The following lists principal categories of derivatives and their uses during the year:

| Category | Purpose |
|---|---|
| Foreign exchange forward contracts | Hedge currency risk of investments denominated in foreign currencies |
| Exchange traded equity futures | Reduce transaction costs; hedge equity market risk; enhance return |
| Exchange traded fixed income futures | Reduce transaction costs; control portfolio duration; enhance return |
| Exchange traded options | Enhance return; reduce transaction costs |
| Asset backed securities | Enhance return |

### *Repurchase Agreements*

For repurchase agreements, the underlying securities consist of U.S. Government or government agency securities, certificates of deposit, commercial paper or bankers' acceptances. All repurchase transactions are governed by written repurchase agreements. Statutes require that collateral securities underlying repurchase agreements must have a market value of at least 102% of the cost of the repurchase agreement. Due to significantly higher cash flows at certain times during the fiscal

year, the State's investment in overnight repurchase agreements for which the underlying securities were held by the dealer (Category 3) fluctuates. $131,904,000 of highly liquid repurchase agreements included in cash and cash equivalents was reported in deposits at June 30, 2004.

***Reverse Repurchase Agreements***

The Cash Management Policy Board permits the State to enter into reverse repurchase agreements, that is, a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. At June 30, 2004, the State had no reverse repurchase agreements.

**COMPONENT UNITS**

***Delaware State Housing Authority***

The Delaware State Housing Authority invests its funds and those held by its trustees in accordance with the various applicable bond resolutions, Federal laws and regulations, and is under the oversight of the State's Cash Management Policy Board. DSHA investments categorized as to risk had a fair value of $76,708,855 at June 30, 2004. Of this amount, $35,328,854 was uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Authority's name (Category 3). The remaining $1,353,241 represents pooled investments where the Authority does not own specific securities. This amount includes funds of $40,026,760 specifically identified for the Authority in the State of Delaware's Investment Pool. These pooled investments are categorized by risk within the investments of the primary government.

***Diamond State Port Corporation***

The carrying and fair value of investments of the DSPC at June 30, 2004 amounted to $4,270,488. The investments, consisting of various equity and mutual funds, are classified for credit risk as uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the DSPC's name (Category 3).

***Delaware State University***

Investments of the University totaled $14,885,377, stated at quoted market value. These investments consist of pooled investments where the University does not own specific securities.

***Delaware Technical and Community College Educational Foundation***

Investments of the DTCC Foundation totaled $5,020,869, stated at quoted market value. These investments consist of pooled investments where the University does not own specific securities.

## NOTE 3. RECEIVABLES

All trade, loan and tax account receivables are recorded net of an allowance for doubtful accounts. In the governmental funds, receivables that will not be available within 60 days of year-end are recorded as deferred revenue. In the government-wide statements, receivables not expected to be collected during the subsequent year are recorded as noncurrent.

Taxes receivable represent the amount of personal, business, and other taxes determined to be measurable and available as of June 30, 2004. Uncollectability for taxes receivable primarily results from identified assessment problems, inability to locate taxpayers, and accounts of decedents.

The State of Delaware levies taxes on real property through its school districts. Each of the three counties of the State establishes the assessed values of real estate and bills and collects its own property taxes. Local school property taxes are levied by local school districts based on the assessed value of real estate, as determined by county taxation formulas. Taxes are levied on July 1 and are payable on or before September 30. Taxes paid after the payable date are assessed a 6% penalty for nonpayment and 1% interest per month thereafter. Taxes are billed and collected by the Counties with funds remitted to the local school district to be used for the local share of school operating costs and debt service on general obligation bonds issued for capital improvements.

Receivables as of year-end for the State's individual funds, including the applicable allowances for uncollectible accounts, are as follows:

**Receivables - Primary Government**
**Governmental Activities**
(Expressed in Thousands)

| | General | Federal Funds | Local School District Funds | Total Receivables |
|---|---|---|---|---|
| Recivables: | | | | |
| Taxes | $ 182,334 | | $ 16,758 | $ 199,092 |
| Interest | | | 9 | 9 |
| Accounts | 558,964 | $ 46,857 | 317 | 606,138 |
| Loans and Notes | 77,742 | 14,840 | | 92,582 |
| Intergovernmental | 176 | 77,899 | | 78,075 |
| Total receivables | 819,216 | 139,596 | 17,084 | 975,896 |
| Allowance for doubtful accounts | (612,215) | (43,216) | (1,091) | (656,522) |
| Total receivable (net) | $ 207,001 | $ 96,380 | $ 15,993 | $ 319,374 |
| Amounts not scheduled for collection during the subsequent year | $ 120,202 | $ 14,980 | $ 10,001 | $ 145,183 |

**Receivables - Primary Government**
**Business-type Activities**
(Expressed in Thousands)

| | Unemployment | Lottery | DelDOT | Total Receivables |
|---|---|---|---|---|
| Recivables: | | | | |
| Taxes | $ 27,337 | | | $ 27,337 |
| Interest | | | $ 2,180 | 2,180 |
| Accounts | 6,908 | $ 5,218 | 4,188 | 16,314 |
| Loans and Notes | | | 27,074 | 27,074 |
| Intergovernmental | 507 | | 5,009 | 5,516 |
| Total receivables | 34,752 | 5,218 | 38,451 | 78,421 |
| Allowance for doubtful accounts | (11,655) | (679) | | (12,334) |
| Total receivable (net) | $ 23,097 | $ 4,539 | $ 38,451 | $ 66,087 |
| Amounts not scheduled for collection during the subsequent year | $ | $ | $ 28,333 | $ 28,333 |

Receivables as of year-end for the State's component Units, including the applicable allowances for uncollectible accounts, are shown below.

**COMPONENT UNITS**

| | Delaware State Housing Authority | Diamond State Port Corporation | Riverfront Development Corporation | Delaware State University | DTCC Educational Foundation | Delaware Charter Schools | Total Receivables |
|---|---|---|---|---|---|---|---|
| | (Expressed in Thousands) | | | | | | |
| Receivables: | | | | | | | |
| Interest | $ 18,228 | | | | | | $ 18,228 |
| Accounts | 2,344 | $ 2,793 | $ 126 | $ 2,810 | | $ 388 | 8,461 |
| Loans and Notes | 407,239 | | 4,825 | 560 | $ 2 | | 412,626 |
| Intergovernmental | 229 | | | 5,082 | | | 5,311 |
| Total receivables | 428,040 | 2,793 | 4,951 | 8,452 | 2 | 388 | 444,626 |
| Less: Allowance for doubtful accounts | (1,230) | (72) | (1,960) | (1,185) | | | (4,447) |
| Total receivables (net) | $ 426,810 | $ 2,721 | $ 2,991 | $ 7,267 | $ 2 | $ 388 | $ 440,179 |
| Amounts not scheduled for collection during the subsequent year | $ 351,604 | $ | $ 2,865 | $ 560 | $ | $ | $ 355,029 |

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. Amounts considered unearned federal grant drawdowns are reported as deferred revenue.

The various components of deferred revenue and unearned revenue reported at year-end in the governmental funds are as follows:

**Deferred Revenues**
(Expressed in Thousands)

| | |
|---|---|
| **Unavailable** | |
| Taxes Receivable | $ 66,505 |
| Non-tax Receivables | 134,244 |
| **Subtotal Unavailable** | 200,749 |
| **Unearned** | |
| Advance Park Reservation Fees | 813 |
| Federal Grant Advance Drawdowns | 3,002 |
| **Total Deferred Revenue** | $ 204,564 |

## NOTE 4. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

### *Due From/Due to Other Funds*

Receivables reported as "Due From Other Funds" and the related payables reported as "Due To Other Funds" represent amounts owed to State agencies by other agencies within the State reporting entity. Amounts receivable from or payable to other levels of government are reported as Intergovernmental receivables or payables. The composition of Due From/Due To balances as of June 30, 2004 expressed in thousands is as follows.

| Receivable Fund | Payable Fund | Amount |
|---|---|---|
| General Fund | Federal Fund | $ 27,852 |
| | Delaware State Lottery | 1,723 |
| Federal Fund | DelDOT Fund | 339 |
| | Total | $ 29,914 |

The amounts due from the Federal Fund are recorded for borrowings to eliminate negative balances in the State Investment Pool. The amount for the Federal Fund is created by expenditures relating to reimbursement type federal grant revenues. These costs result in a negative balance in the State Investment Pool. The negative balance is considered to be a borrowing from the General Fund. The amount due from the Delaware Lottery (reported as an internal balance on the Statement of Net Assets), represents profits required by law to be transferred to the General Fund. The amount due from the DelDOT fund represents federal grant reimbursements processed by DelDOT for expenditures of the Department of Homeland Security.

### *Transfers In From /Out To Other Funds*

Transfers in and transfers out from/to other funds in the Statement of Revenues, Expenditures and Changes in Fund Balance, the Statement of Revenues, Expenses

and Changes in Fund Net Assets, Proprietary Funds and Payment from the Primary Government in the Statement of Activities-Component Units represent transfers between funds. Transfers are used to 1) move revenues from the fund that statute requires to collect them to the fund that statute requires to expend them, 2) use restricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, and 3) move profits from the Delaware State Lottery as required by State law.

A schedule of transfers in and transfers out for the year ended June 30, 2004 is presented below.

(Expressed in Thousands)

| | Transfers In | Transfers Out |
|---|---|---|
| **Governmental Fund Types** | | |
| General Fund | $ 399,037 | $ 56,198 |
| Federal Fund | | 1 |
| Local School Fund | 16,849 | 38,668 |
| Capital Projects Fund | | 78,459 |
| **Proprietary Fund Types** | | |
| Lottery | | 284,188 |
| DelDOT Fund | 42,250 | 622 |
| **Total All Funds** | $ 458,136 | $ 458,136 |

## NOTE 5. GENERAL OBLIGATION BONDS

General obligation bonds have been authorized and issued primarily to provide funds for acquisition and construction of capital facilities for State administrative operations, public and higher education, public and mental health, correction and conservation purposes and for maintenance and construction of highway facilities.

The State Constitution provides that the State may issue general obligation bonds for specific purposes in amounts approved by the General Assembly. The enabling acts pursuant to which the bonds are issued provide that all bonds issued shall be direct obligations of the State of Delaware; that is, the bonds are secured by the pledge of the full faith and credit of the State. General obligation bonds are redeemed over a period not to exceed 20 years, generally from available resources in the General fund. Accordingly, the State of Delaware has generally issued 10 and 20-year serial bonds with equal amounts of principal maturing each year. Bonds outstanding have call provisions providing for early redemption at the option of the State, generally beginning 8 or 10 years following the date of issue in the inverse order of maturity, in whole or in part, at a redemption price not to exceed 101% to 103% of par value.

On August 14, 2003, the State issued $121,000,000 of general obligation bonds. These serial bonds mature between July 1, 2004 and July 1, 2023 and bear average

annual interest rates of 3.86%. Proceeds were used to provide funds for capital improvements to various State facilities.

On January 1, 2004, the State issued $205,310,000 of general obligation bonds. These serial bonds mature between July 1, 2004 and July 1, 2024 and bear average annual interest rates of 4.45%. A portion of these proceeds amounting to $71,810,000 plus additional funds totaling $8,072,000 were used to advance refund $74,624,000 of general obligation bonds. Investments were purchased and placed in an irrevocable trust with an escrow agent. The investments and fixed earnings on the investments are sufficient to fully provide for all future debt service on the refunded bonds**.** The refundings resulted in an economic gain of $2,944,495 and a debt service cash savings over the next 8 years of $2,924,184. The remaining proceeds of these bonds were used to provide funds for capital improvements to various State facilities.

On December 23, 2003, the State issued $908,000 in General Obligation Qualified Zone Academy Bonds (QZABs). The QZABs are debt instruments that carry a substantial federal tax credit to the lending financial institution. The lender receives no interest payment from the borrower but receives an interest tax credit. The lender benefits from the tax credit that provides a greater return than bond interest would provide, while the State benefits because the loan is essentially interest free. Proceeds were used for renovation of public schools. The bonds mature in 2019.

Bonds issued and outstanding totaled $1,012,544,000 at June 30, 2004. Of this amount, $288.5 million is supported by property taxes collected by the Local School District Funds. During fiscal year 2004, the Local School District Funds transferred $27.5 million of property tax revenue to the General Fund to meet the required debt service on their share of the debt.

The State is authorized to issue an additional $163.6 million of general obligation bonds at June 30, 2004. Interest rates and maturities of the outstanding General Obligation Bonds are detailed on the following page.

## General Obligation Bonds

| Sale # | Description | Interest Rates | Maturity Date (Fiscal Year) | Balance Outstanding June 30, 2004 (Expressed in Thousands) |
|---|---|---|---|---|
| 191 | GO + Refunding 2004A | 3.0% - 6.0% | 2024 | $ 205,310 |
| 190 | QZAB 2003D | 0% | 2019 | 908 |
| 189 | GO Refunding 2003C | 4.0% - 6.0% | 2024 | 121,000 |
| 188 | GO Refunding 2003B | 4.0% - 5.0% | 2012 | 33,050 |
| 187 | GO 2003A | 2.625% - 5.0% | 2023 | 92,700 |
| 186 | QZAB 2002B | 0% | 2017 | 760 |
| 185 | GO + Refunding 2002A | 4.0% - 5.25% | 2023 | 238,965 |
| 184 | QZAB 2001B | 0% | 2012 | 649 |
| 183 | GO + Refunding 2001A | 4.0% - 4.75% | 2022 | 101,071 |
| 182 | GO 2000 A | 5.0% - 5.5% | 2010 | 45,000 |
| 181 | GO 1999 A | 4.0% - 4.625% | 2019 | 52,250 |
| 179 | GO + Refunding 1998A | 4.5% - 4.75% | 2018 | 68,110 |
| 178 | GO 1997 B | 5.0% | 2007 | 14,625 |
| 177 | GO 1997 A | 5.0% | 2007 | 18,000 |
| 176 | GO 1996 A | 4.5% - 5.125% | 2006 | 15,000 |
| 175 | GO 1994 B | 5.25% - 6.125% | 2005 | 3,375 |
| 170 | GO 1992 B | 4.7% - 6.1% | 2013 | 1,771 |
| | | | | $ 1,012,544 |

The table presented below sets forth the future debt service requirements on outstanding general obligation bonds at June 30, 2004.

## Total General Obligation Bonds

(Expressed in Thousands)

| Fiscal Year Ending June 30 | Principal | Interest | Total |
|---|---|---|---|
| 2005 | $ 107,890 | $ 46,160 | $ 154,050 |
| 2006 | 104,406 | 41,290 | 145,696 |
| 2007 | 99,454 | 36,017 | 135,471 |
| 2008 | 90,340 | 31,367 | 121,707 |
| 2009 | 84,645 | 26,936 | 111,581 |
| 2010-2014 | 320,582 | 84,207 | 404,789 |
| 2015-2019 | 135,652 | 30,241 | 165,893 |
| 2020-2024 | 69,575 | 7,310 | 76,885 |
| Totals | $ 1,012,544 | $ 303,528 | $ 1,316,072 |

Changes in general obligation bonded debt during the year ended June 30, 2004, are summarized in Note 10.

In the current and prior years, the State has defeased certain general obligation bonds by creating separate irrevocable trust funds. New debt has been issued or cash appropriated and the proceeds have been used to purchase U.S. Government securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt. Accordingly, the debt has been considered defeased and therefore has been removed as a liability from the Government-wide financial statements. As of June 30, 2004, a total of $170.5 million of defeased bonds were outstanding.

## NOTE 6. REVENUE BONDS

### REVENUE BONDS

The State Constitution empowers certain State agencies and authorities to issue bonds that are not supported by the full faith and credit of the State. These bonds pledge income derived from acquired or constructed assets or some other stream of revenues to retire the debt and pay related interest.

### PRIMARY GOVERNMENT

### DelDOT Fund

#### *Delaware Transportation Authority*

The Delaware Transportation Authority (the Authority) is subject to oversight by the Department of Transportation and is included in the DelDOT fund. The Authority assists in the implementation of the State's plans and policies regarding the coordination and development of a comprehensive, balanced transportation system for the State. It has the power to develop a unified system of air, water, vehicular and specialized transportation in the State. The Authority includes the Transportation Trust Fund and the Delaware Transit Corporation. The Secretary of the Department of Transportation, with consent of the Governor, appoints the Authority's Director.

To assist the Authority in financing a unified transportation system, the State created a Transportation Trust Fund (the Trust Fund) within the Authority which receives all receipts of the Authority. The primary sources of funding of the Trust Fund are motor fuel taxes and motor vehicles fees imposed and collected by the State and deposited in the Trust Fund, and revenue from the Delaware Turnpike, which the Authority owns and operates. The Authority also has the power to issue bonds, with legislative authorization, to finance improvements to the State's transportation system. The Authority may apply Trust Fund revenue in excess of debt service requirements for transportation projects, subject to legislative authorization, and may pledge any or all of this revenue to secure financing for these projects.

The Authority did not issue bonds during the fiscal year ended June 30, 2004.

The Authority has previously defeased various other bond issues by creating separate irrevocable trust funds. New debt has been issued and the proceeds have been used to purchase U.S. Government securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and is therefore removed as a liability of the Authority. As of June 30, 2004, a total of $135,255,000 of defeased bonds is outstanding.

The Delaware Transportation Authority had a total of $195,470,550 in authorized but unissued bonds at June 30, 2004. Bonds outstanding at June 30, 2004 amounted to $815,505,000 and are detailed below.

**Delaware Transportation Authority Revenue Bonds**

| Description | Interest Rates | Maturity Date (Fiscal Year) | Balance Outstanding June 30, 2004 (Expressed in Thousands) |
|---|---|---|---|
| Transportation System Senior Revenue Bonds - Series | | | |
| 1993 | 4.9% - 5.5% | 2010 | $ 12,745 |
| 1994 | 5.6% - 6.50% | 2014 | 3,205 |
| 1997 | 5.0% - 6.0% | 2017 | 97,490 |
| 1998 | 4.0% - 5.5% | 2016 | 59,170 |
| 2000 | 5.0% - 6.0% | 2020 | 27,790 |
| 2001 | 3.5% - 5.25% | 2021 | 60,935 |
| 2002 | 4.0% - 5.0% | 2008 | 43,015 |
| 2002 B | 3.0% - 5.25% | 2022 | 165,000 |
| 2003 | 3.0% - 5.0% | 2023 | 277,210 |
| Transportation System Junior Revenue Bonds - Series | | | |
| 1993 | 4.9% - 5.0% | 2005 | 20,020 |
| 1997 | 4.5% | 2004 | 805 |
| 2002 | 4.375% - 5.0% | 2009 | 48,120 |
| | Totals | | 815,505 |
| | Less: Current portion | | 53,920 |
| | | | $ 761,585 |

Future debt service requirements for the Authority's outstanding bonds are shown in the table on the following page.

**Delaware Transportation Authority Revenue Bonds**

(Expressed in Thousands)

| Year Ending June 30 | Principal | Interest | Total |
|---|---|---|---|
| 2005 | $ 53,920 | $ 39,175 | $ 93,095 |
| 2006 | 55,095 | 36,433 | 91,528 |
| 2007 | 56,875 | 33,571 | 90,446 |
| 2008 | 60,345 | 30,619 | 90,964 |
| 2009 | 63,510 | 27,468 | 90,978 |
| 2010-2014 | 236,475 | 97,162 | 333,637 |
| 2015-2019 | 181,650 | 45,859 | 227,509 |
| 2020-2023 | 107,635 | 10,541 | 118,176 |
| Totals | $ 815,505 | $ 320,828 | $ 1,136,333 |

## COMPONENT UNITS

### *Delaware State Housing Authority*

The Authority is authorized to issue bonds and notes, with the approval of the State, in order to exercise its powers. These bonds and notes are secured solely by the revenues, loans, and other pledged assets under the related Bond Indenture of the Authority. Bonds issued by the Authority are not secured by the full faith, credit and taxing power of the State.

The Delaware State Housing Authority has issued revenue bonds to provide financing for mortgage, construction, and other loans to not-for-profit and limited for-profit housing sponsors; to make loans to mortgage lenders, requiring the proceeds thereof to be used for making new qualified residential mortgage loans; and to purchase qualified mortgage loans from mortgage lenders. The bonds are direct obligations of the Authority and are secured by the mortgage loans made or purchased under the applicable resolutions; the revenues, prepayments and foreclosure proceeds received are related to the mortgage loans, and certain funds and accounts established pursuant to the applicable bond resolutions. All bonds are callable subject to certain restrictions. Interest rates on bonds outstanding range from 2.00% to 7.375% with maturities through October 1, 2036.

The Authority's Single Family Mortgage Revenue Bonds 2003 Series A consisted of a total of $30,000,000 being issued in traunches. From February 18, 2003 to June 26, 2003, the Authority issued a total of $18,881,115. From September 3, 2003 to November 24, 2003, the Authority issued a total of $7,613,742. Proceeds of the sales were used for making new qualified residential mortgage loans and to purchase qualified mortgage loans from mortgage lenders.

On December 4, 2003, the Authority issued $32,235,000 of Senior Single Family Mortgage Revenue Bonds, 2003 Series B. The proceeds were used for a current refunding of $28,367,500 of Single Family Mortgage Revenue Bonds, along with new mortgages of $5,000,000. The refunding was undertaken to reduce the total future debt service payments and to provide funds to buy down mortgage rates on new mortgages. The transaction resulted in an economic gain of $12,626,201 and a reduction of $25,264,317 in future debt service payments.

The Authority's Single Family Mortgage Revenue Bonds 2004 Series A is a total of $60,000,000 being issued in traunches. From March 4, 2004 to June 10, 2004, the Authority issued a total of $15,172,199. Proceeds of the sales were used for making new qualified residential mortgage loans.

Outstanding bonds at June 30, 2004 amounted to $307,212,932. Future debt service requirements for the Authority's bonds are shown below.

**Delaware State Housing Authority Revenue Bonds**

(Expressed in Thousands)

| Year Ending June 30 | Principal | Interest | Total |
|---|---|---|---|
| 2005 | $ 8,841 | $ 15,741 | $ 24,582 |
| 2006 | 9,365 | 15,327 | 24,692 |
| 2007 | 9,875 | 14,877 | 24,752 |
| 2008 | 10,520 | 14,381 | 24,901 |
| 2009 | 11,045 | 13,843 | 24,888 |
| 2010-2014 | 53,480 | 60,116 | 113,596 |
| 2015-2019 | 43,815 | 46,973 | 90,788 |
| 2020-2024 | 43,901 | 34,750 | 78,651 |
| 2025-2029 | 49,448 | 22,651 | 72,099 |
| 2030-2034 | 26,007 | 13,013 | 39,020 |
| 2034-2037 | 40,916 | 3,428 | 44,344 |
| Total | $ 307,213 | $ 255,100 | $ 562,313 |

***Riverfront Development Corporation***

Bonds payable represents amounts due under variable rate bonds, which were issued by RDC in November 1997. The bonds bear interest at a rate which is determined quarterly and is equal to the yield on 90-day U.S. Treasury Bills plus 0.30% with a minimum rate of 5.125%. The rate as of June 30, 2004 was 5.125%. The bonds mature December 1, 2017. The bonds are subject to mandatory redemption requirements as shown on the following page.

**Riverfront Development Corporation Revenue Bonds**

(Expressed in Thousands)

| Year Ending June 30 | Principal | Interest | Total |
|---|---|---|---|
| 2005 | $ 200 | $ 261 | $ 461 |
| 2006 | 240 | 249 | 489 |
| 2007 | 245 | 237 | 482 |
| 2008 | 275 | 223 | 498 |
| 2009 | 300 | 209 | 509 |
| 2010-2014 | 1,955 | 774 | 2,729 |
| 2015 - 2018 | 1,970 | 189 | 2,159 |
| Total | $ 5,185 | $ 2,142 | $ 7,327 |

### *Delaware State University*

In May 1999, the University issued Revenue Refunding Bonds of $15,865,000 (par value) to advance refund the 1992 and 1996 series bonds with a total par value of $14,625,000. The Bond Trust Indenture requires the University to maintain a Debt Service Reserve Fund equal to the maximum annual debt service on all bonds outstanding under the Indenture. The indenture provides for the deposit of a surety bond in the Debt Reserve Fund replacing the investment requirement. This bond was obtained from MBIA Insurance Corporation in the amount of $1,580,000. The bond ratings were not changed as a result of this substitution. In addition, the University has pledged for payment of debt, all net operating and non-operating revenues, except State appropriations and restricted gifts, grants and bequests, for each academic year during which any of the bonds remain outstanding.

Interest rates range from 3.65% to 5.25% on the outstanding Revenue Refunding Bonds. Debt service requirements for the Delaware State University Bonds are shown on below.

**Delaware State University Revenue Refunding Bonds**

| Year Ending June 30 | (Expressed in Thousands) Principal | Interest | Total |
|---|---|---|---|
| 2005 | $ 905 | $ 521 | $ 1,426 |
| 2006 | 940 | 485 | 1,425 |
| 2007 | 690 | 453 | 1,143 |
| 2008 | 720 | 425 | 1,145 |
| 2009 | 745 | 394 | 1,139 |
| 2010 - 2014 | 5,140 | 1,483 | 6,623 |
| 2015 - 2018 | 3,130 | 437 | 3,567 |
| Total | $ 12,270 | $ 4,198 | $ 16,468 |
| Less: Unamortized Bond Discount | (64) | | |
| | $ 12,206 | | |

The Delaware State University Student Housing Foundation (the Foundation), a component unit of Delaware State University, is a non-profit corporation organized for the purpose of owning and operating student housing facilities primarily for students and faculty of Delaware State University. The Foundation has issued student housing revenue bonds secured by deed and payable solely from the revenues of the Foundation. Bond proceeds were restricted to the development, construction, furnishing and equipping of the student housing facilities.

At July 31, 2003, bonds payable of the Foundation consisted of $17,630,000 of tax-exempt term bonds with maturities through October 2033 and $405,000 of taxable term bonds with maturities through October 2006. Interest rates on the tax-exempt bonds are variable determined weekly, as defined in the supplemental trust indenture. Interest rates on the taxable bonds are fixed coupon rates of 5.50% - 7.50%. Future debt service requirements for the Foundation's bonds payable are as follows:

**Delaware State University**
**Student Housing Foundation**
**Revenue Bonds**

| Year Ending June 30 | (Expressed in Thousands) Principal | Interest | Total |
|---|---|---|---|
| 2004 | $ 50 | $ 348 | $ 398 |
| 2005 | 185 | 682 | 867 |
| 2006 | 210 | 673 | 883 |
| 2007 | 295 | 661 | 956 |
| 2008 | 315 | 648 | 963 |
| 2009 - 2013 | 1,830 | 3,052 | 4,882 |
| 2014 - 2018 | 2,385 | 2,659 | 5,044 |
| 2019 - 2023 | 3,085 | 1,986 | 5,071 |
| 2024 - 2028 | 4,005 | 1,319 | 5,324 |
| 2029 – 2033 | 5,220 | 581 | 5,801 |
| 2034 | 455 | 9 | 464 |
| Total | $ 18,035 | $ 12,618 | $ 30,653 |

## NOTE 7. LOANS AND NOTES PAYABLE

### *Delaware State Housing authority (DSHA)*

Notes payable of the DSHA represent obligations to the Federal National Mortgage Association (FNMA) and the State.

The Authority entered into a $6,300,000 loan agreement with FNMA in May 2003 to provide construction financing for three HDF/Tax Credit developments through FNMA's American Community Fund (ACF). The total principal balance at June 30, 2004 is $4,630,375. The note is payable as the construction project loans convert to permanent HDF mortgages through April 2006 with interest accruing at an adjustable

rate obtained by adding one hundred forty (140) basis points (1.40%) to the three month LIBOR, adjusted quarterly, based on such rate as published in The Wall Street Journal on the last business day of the month immediately preceding each quarter.

The three construction projects financed through the Construction Loan Fund with the FNMA/ACF note payable detailed above are expected to convert to permanent loans with financing through the HDF within the next year. Therefore, the June 30, 2004 principal balance of the note payable, $4,630,375, is considered current. Based on this principal and an interest rate in effect at the end of the year of 2.51%, the estimate cost will be $67,000.

The State issued general obligation bonds on behalf of the DSHA to provide funding for low-income housing loans. Proceeds from these bonds enabled the DSHA to receive the savings from the FAF issues in advance. Debt service requirements for these notes are shown below.

**Delaware State Housing Authority**
**Financing Adjustment Factor (FAF) Notes**
(Expressed in Thousands)

| Year Ending June 30 | Principal | Interest | Total |
|---|---|---|---|
| 2005 | $ 47 | $ 25 | $ 72 |
| 2006 | 46 | 23 | 69 |
| 2007 | 46 | 21 | 67 |
| 2008 | 115 | 19 | 134 |
| 2009 | 72 | 14 | 86 |
| 2010-2014 | 303 | 248 | 551 |
| 2015-2019 | 19 | 1 | 20 |
| Total | $ 648 | $ 351 | $ 999 |

### *Diamond State Port Corporation (DSPC)*

Loan and notes payable of the DSPC at June 30, 2004 are as follows.

**Diamond State Port Corporation**
**Loan and Notes Payable**
(Expressed in Thousands)

| | |
|---|---|
| City of Wilmington: | |
| Port Debt Service Notes | $ 24,702 |
| Transportation Trust Fund Loan | 28,333 |
| Total | $ 53,035 |

Transportation Trust Fund Loan

On November 30, 2001, the DSPC entered into a loan agreement with the State of Delaware's Department of Transportation (DOT). The DSPC borrowed $25,500,000 on February 2, 2002 and $2,000,000 on May 2, 2002. The funds were used to repay the balances in full of the Delaware River and Bay Authority Note and the Wilmington Trust Company Note and, at a discount, the City of Wilmington Deferred Payment Note. In addition, the loan provided $8,648,136 to establish a fund to be invested. This fund was restricted to pay portions of debt service as they become due. In 2004 the remaining funds were used for debt service. No funds restricted for debt service remain.

In July 2004, the loan was restructured to allow for the deferral of debt service principal and interest payments due January 1, 2004, July 1, 2005, and to restructure the repayment of the outstanding principal balance effective July 1, 2005 over the next twenty years. The rate of interest of 4.6% remained unchanged. Beginning July 1, 2005, payments of principal and interest are due semi-annually over a twenty-year period. Interest capitalized as principal during fiscal year 2004 as part of the restructuring amounted to $1,259,707. Interest expense charged to operations in 2004 was $1,259,707. The schedule of future maturities below includes $651,666 interest to be capitalized as principal in fiscal year 2005 as part of the loan restructuring of 2004.

**Transportation Trust Fund Loan**
(Expressed in Thousands)

| Year Ending June 30 | Principal | Interest | Total |
|---|---|---|---|
| 2005 | $ - | $ - | $ - |
| 2006 | 909 | 1,323 | 2,232 |
| 2007 | 952 | 1,281 | 2,233 |
| 2008 | 996 | 1,236 | 2,232 |
| 2009 | 1,042 | 1,190 | 2,232 |
| 2010-2014 | 5,985 | 5,176 | 11,161 |
| 2015-2019 | 7,513 | 3,648 | 11,161 |
| 2020-2024 | 9,431 | 1,730 | 11,161 |
| 2025 | 2,157 | 75 | 2,232 |
| Total | $ 28,985 | $ 15,659 | $ 44,644 |

City of Wilmington

In 1995, in consideration of the acquisition of the Port of Wilmington assets from the City of Wilmington, Delaware (the City), the DSPC issued to the City two separate notes consisting of a Port Deferred Payment Note in the amount of $39,900,000 and Port Debt Service Notes with original face amounts of $51,080,622. These notes are secured by a first lien on substantially all of the DSPC's assets. These notes obligate the DSPC to pay the City amounts that generally represent the outstanding

principal balance of certain DSPC-related City general obligation bonds. The interest rates on the City bonds range from 3.2% to 6.4%.

On October 20, 2001, the City issued $22,165,000 of general obligation bonds with an average interest rate of 3.7% to advance refund $21,335,000 of outstanding 1992 A, B, and C Series general obligation bonds with an average interest rate of 6.16%. The Port related portions of the new bonds issued and old bonds redeemed were $7,206,705 and $6,945,086 respectively, passed through to the Corporation. Although the effect of the City's advance refunding on the Port Debt Service Note resulted in a deferred accounting loss of $261,619 for the year ended June 30, 2002, it reduces the Corporation's debt service payments by $281,293 over the next eleven years resulting in an economic gain. The deferred loss on the refunding is accreted over the eleven years of the life of the debt. The deferred loss balance as of June 30, 2004 was $122,796.

Principal and interest payments made on the notes during 2004 were $3,553,607 and $1,313,344, respectfully. Interest expense in 2004 was $1,271,149.

The future principal and interest payments on Port Debt Service Notes are as follows:

**Port Debt Service Note**
(Expressed in Thousands)

| Year Ending June 30 | Principal | Interest | Total |
|---|---|---|---|
| 2005 | $ 3,301 | $ 1,155 | $ 4,456 |
| 2006 | 2,980 | 1,007 | 3,987 |
| 2007 | 3,117 | 866 | 3,983 |
| 2008 | 3,262 | 715 | 3,977 |
| 2009 | 2,251 | 581 | 2,832 |
| 2010-2014 | 6,157 | 1,610 | 7,767 |
| 2015-2019 | 2,524 | 591 | 3,115 |
| 2020-2023 | 1,233 | 127 | 1,360 |
| Subtotal | 24,825 | 6,652 | 31,477 |
| Deferred Loss on Refunding | (123) | | (123) |
| Total | $ 24,702 | $ 6,652 | $ 31,354 |

***Riverfront Development Corporation***

The RDC has entered into multiple mortgage agreements with various banks. These mortgages are secured by the real estate and vehicles financed. Principal balances of the mortgages total $8,249,157 at June 30, 2004. Interest rates for the mortgages vary between 5.25% and 10.0% and mature between January 2005 and October 2009. Estimated future annual debt service requirements are shown on the following page.

**Riverfront Development Mortgage Debt**

(Expressed in Thousands)

| Year Ending June 30 | Principal | Interest | Total |
|---|---|---|---|
| 2005 | $ 828 | $ 471 | $ 1,299 |
| 2006 | 215 | 427 | 642 |
| 2007 | 228 | 415 | 643 |
| 2008 | 507 | 394 | 901 |
| 2009 | 944 | 372 | 1,316 |
| 2010 | 5,527 | 105 | 5,632 |
| Total | $ 8,249 | $ 2,184 | $ 10,433 |

Demand Note Payable and Advance Payable

RDC has available a line of credit in the amount $250,000. This loan bears interest at 1.00% over prime (5.25% at June 30, 2004) and due on demand. There was no outstanding balance on this loan as of June 30, 2004.

Advance payable in 2003 consisted of an advance received from DNREC of $500,000. The advance is noninterest bearing and was to be repaid from proceeds from a claim that RDC has against the U.S. Department of Defense for environmental remediation costs incurred. Pursuant to an agreement with DNREC, this advance was reclassified as a reimbursement from DNREC during 2004 and is included in other non-operating income.

## NOTE 8. LEASE COMMITMENTS

### PRIMARY GOVERNMENT

The State has entered into various property and equipment operating leases (terms in excess of one year) with aggregate future rentals approximating $117.0 million, of which $93.5 million relates to property leases and $23.5 million relates to equipment leases. Operating leases contain various renewal options. Any escalation clauses, sublease rentals and contingent rents are considered immaterial to the future minimum lease payments and current rental expenditures. Operating lease payments are recorded as expenditures of the related fund when paid. Appropriations of approximately $26.3 million were made by the General Assembly to meet the rental payments in fiscal 2004, of which $17.2 million was for office space and $9.1 million was for equipment consisting mainly of computers, data processing equipment and fleet vehicles.

Significant annual equipment rentals include $3.6 million for computers and data processing equipment for the Executive Department and $3.7 million for fleet vehicles and data processing equipment with the Department of Administrative Services. Significant annual real estate rentals include $5.3 million for leases for Health and Social Services facilities, $2.4 million for the Department of Labor and

$1.7 million for office space of the Department of Services for Children, Youth and Their Families.

Future minimum lease commitments for operating leases as of June 30, 2004 are shown in the following table.

**State of Delaware Lease Commitments**
(Expressed in Thousands)

| Year Ending June 30 | Operating Leases |
|---|---|
| 2005 | $ 23,740 |
| 2006 | 18,420 |
| 2007 | 15,443 |
| 2008 | 11,956 |
| 2009 | 9,742 |
| 2010-2014 | 23,205 |
| 2015-2019 | 8,240 |
| 2020-2024 | 3,589 |
| 2025-2029 | 2,200 |
| 2030-2034 | 417 |
| Thereafter | 67 |
| | $ 117,019 |

## COMPONENT UNITS

### *Delaware State University*

The University has entered into capital leases for certain telephone and electronic equipment. The economic substance of the leases is that the University is financing acquisition of the assets through the leases and accordingly, they are recorded in the University's assets and liabilities. Future minimum payments under capital leases and the asset purchase agreement are as follows:

**Delaware State University**
**Lease Commitments**
(Expressed in Thousands)

| Year Ending June 30 | Capital Leases |
|---|---|
| 2005 | $ 448 |
| 2006 | 448 |
| 2007 | 448 |
| 2008 | 448 |
| 2009 | 448 |
| 2010 | 114 |
| Total Future payments | 2,354 |
| Less amount representing interest | (194) |
| | $ 2,160 |

## NOTE 9. OTHER LONG-TERM OBLIGATIONS

Compensated absences payable are reported in the Government-wide Financial Statements and in Proprietary Funds. They represent benefits accrued to State employees for vacation earned as of year-end and sick leave estimated to be paid out at retirement for services rendered as of June 30, 2004. Employees earn from 1.25 to 1.75 days of vacation leave per month depending on years of service. The employee or his estate is paid for unused vacation upon termination of employment. Employees earn 1.25 days of sick leave per month. The State's obligation for sick leave credit is a maximum of 45 workdays. $117.2 million has been accrued in long-term obligations for the Governmental Funds and $11.1 million in the Proprietary Funds for the compensated absences liability.

The State has recorded $35.0 million relating to the accrual of the long-term obligation for escheat (abandoned property). $7.0 million was recorded as a current obligation.

The State has incurred obligations relating to scholarship and physician loan repayment programs resulting in an additional long-term obligation of $2.8 million. $0.4 million was recorded as a current obligation.

## NOTE 10. CHANGES IN LONG-TERM OBLIGATIONS

The table below provides a summary of changes in long-term obligations of the Primary Government for the year ended June 30, 2004.

**Changes in Long-Term Obligations**
**Primary Government**
(Expressed in Millions)

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---|---|---|---|---|---|
| Governmental Activities | | | | | |
| General obligation bonds | $ 854.3 | $ 327.2 | $ (169.0) | $ 1,012.5 | $ 107.9 |
| Bond issue premium, net of accumulated amortization | 22.5 | 22.0 | (2.4) | 42.1 | 2.4 |
| Revenue bonds and Public Bldg | 0.2 | | (0.2) | 0.0 | |
| Physician & scholarship programs | 3.0 | 0.2 | (0.4) | 2.8 | 0.4 |
| Claims and judgments (notes 13 and 17) | 113.5 | 68.0 | (106.6) | 74.9 | 16.5 |
| Compensated absences | 112.5 | 13.5 | (8.8) | 117.2 | 9.0 |
| Net pension obligation (note 14) | 80.6 | 27.5 | (19.5) | 88.6 | |
| Escheat payable | 52.7 | 7.0 | (24.7) | 35.0 | 7.0 |
| Governmental activities long-term liabilities | $ 1,239.3 | $ 465.4 | $ (331.6) | $ 1,373.1 | $ 143.2 |
| Business-type Activities | | | | | |
| Revenue bonds | 863.1 | | (47.6) | 815.5 | 53.9 |
| Bond issue premium, net of accumulated amortization | 35.6 | | (6.2) | 29.4 | |
| Compensated Absences | 11.6 | | (0.5) | 11.1 | 3.5 |
| Claims and judgments (notes 13 and 17) | 16.6 | 3.1 | (4.9) | 14.8 | 2.2 |
| Business type Activities long-term liabilities | $ 926.9 | $ 3.1 | $ (59.2) | $ 870.8 | $ 59.6 |

Changes in long-term obligations for the Component Units are summarized below.

**Component Units**
(Expressed in Millions)

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---|---|---|---|---|---|
| **Delaware State Housing Authority** | | | | | |
| Notes Payable | $ 2.1 | $ 3.8 | $ (0.6) | $ 5.3 | $ 4.7 |
| Revenue bonds | 379.6 | 55.0 | (127.4) | 307.2 | 8.8 |
| Compensated Absences | 0.8 | 0.4 | (0.4) | 0.8 | 0.0 |
| Total Long Term Obligations | $ 382.5 | $ 59.2 | $ (128.4) | $ 313.3 | $ 13.5 |
| **Diamond State Port Corporation** | | | | | |
| Notes Payable | $ 28.2 | | $ (3.5) | $ 24.7 | $ 3.3 |
| Loans Payable | 27.5 | $ 1.2 | (0.4) | 28.3 | |
| Other Non-current | 0.1 | | | 0.1 | |
| Total Long Term Obligations | $ 55.8 | $ 1.2 | $ (3.9) | $ 53.1 | $ 3.3 |
| **Riverfront Development Corporation** | | | | | |
| Bonds Payable | $ 5.4 | | $ (0.2) | $ 5.2 | $ 0.2 |
| Long Term Debt | 11.2 | $ 7.5 | (10.5) | 8.2 | 0.8 |
| Total Long Term Obligations | $ 16.6 | $ 7.5 | $ (10.7) | $ 13.4 | $ 1.0 |
| **Delaware State University** | | | | | |
| Lease Obligations | $ 0.4 | $ 2.5 | $ (0.7) | $ 2.2 | $ 0.4 |
| Notes Payable | 0.6 | | | 0.6 | 0.1 |
| Revenue bonds | 13.1 | 18.1 | (1.1) | 30.1 | 1.0 |
| Total Long Term Obligations | $ 14.1 | $ 20.6 | $ (1.8) | $ 32.9 | $ 1.5 |
| **Delaware Charter Schools** | | | | | |
| Long Term Debt | $ 22.5 | $ 6.8 | $ (2.8) | $ 26.5 | $ 1.1 |
| Total Long Term Obligations | $ 22.5 | $ 6.8 | $ (2.8) | $ 26.5 | $ 1.1 |

## NOTE 11. NO COMMITMENT DEBT (NOT INCLUDED IN FINANCIAL STATEMENTS)

The State of Delaware, by action of the General Assembly, created various authorities for the express purpose of providing private entities with an available low cost source of capital financing for construction of facilities deemed to be in the public interest. The bonds of the authorities represent limited obligations payable solely from payments made by the borrowing entities. The majority of the bonds are secured by the property financed. Upon repayment of a bond, ownership of acquired property transfers to the entity served by the bond issuance. The State has no obligation for this debt. Accordingly, these bonds are not reflected in the accompanying financial statements. These bonds are issued through the Delaware Economic Development Authority and the Delaware Health Facilities Authority. The principal amount of bonds outstanding at June 30, 2004 for these entities amounted to $1.5 billion and $326.1 million, respectively.

# NOTE 12. CAPITAL ASSETS

## PRIMARY GOVERNMENT

Capital asset activities for the fiscal year ended June 30, 2004 were as follows:

**Capital Assets**
(Expressed in Thousands)

| Governmental Activities | Balance * | Increases | Decreases | Balance |
|---|---|---|---|---|
| Capital Assets, not being depreciated | | | | |
| Land | $ 286,424 | $ 41,387 | | $ 327,811 |
| Easements | 66,822 | | | 66,822 |
| Construction-in-progress | 296,798 | 163,871 | $ (257,406) | 203,263 |
| Total capital assets, not being depreciated | 650,044 | 205,258 | (257,406) | 597,896 |
| Capital assets, being depreciated | | | | |
| Vehicles | 51,559 | 15,152 | (1,705) | 65,006 |
| Buildings | 1,521,136 | 253,157 | (3,223) | 1,771,070 |
| Equipment | 77,047 | 3,160 | (4,543) | 75,664 |
| Land Improvements | 37,582 | 20,556 | | 58,138 |
| Total capital assets being depreciated | 1,687,324 | 292,025 | (9,471) | 1,969,878 |
| Less accuumulated depreciation for: | | | | |
| Vehicles | (34,750) | (12,557) | 1,576 | (45,731) |
| Buildings | (595,525) | (36,311) | 2,447 | (629,389) |
| Equipment | (54,011) | (890) | 2,859 | (52,042) |
| Land Improvements | (13,887) | (4,155) | | (18,042) |
| Total accumulated depreciation | (698,173) | (53,913) | 6,882 | (745,204) |
| Total capital assets, being depreciated, net | 989,151 | 238,112 | (2,589) | 1,224,674 |
| Governmental activities capital assets, net | $ 1,639,195 | $ 443,370 | $ (259,995) | $ 1,822,570 |

* Reclassified to gross up for assets in service at beginning of year

| Business-type Activity DelDOT Fund | Beginning Balance * | Increases | Decreases | Ending Balance |
|---|---|---|---|---|
| Capital Assets, not being depreciated | | | | |
| Land | $ 111,562 | $ 2,111 | | $ 113,673 |
| Infrastructure | 3,126,478 | 22,003 | | 3,148,481 |
| | | | | 0 |
| Total capital assets, not being depreciated | 3,238,040 | 24,114 | | 3,262,154 |
| Capital assets, being depreciated | | | | |
| Buildings | 51,971 | 4,798 | $ (3,354) | 53,415 |
| Vehicles and equipment | 152,567 | 14,790 | (17,526) | 149,831 |
| Total capital assets being depreciated | 204,538 | 19,588 | (20,880) | 203,246 |
| Less accumulated depreciation for: | | | | |
| Buildings | (18,949) | (1,558) | 1,644 | (18,863) |
| Vehicles and equipment | (63,882) | (17,982) | 12,004 | (69,860) |
| Total accumulated depreciation | (82,831) | (19,540) | 13,648 | (88,723) |
| Total capital assets, being depreciated, net | 121,707 | 48 | (7,232) | 114,523 |
| Business-type activity capital assets, net | $ 3,359,747 | $ 24,162 | $ (7,232) | $ 3,376,677 |

* Restated (note 19)

**Capital Assets**

(Expressed in Thousands)

| Business-type Activites Lottery | Beginning Balance | Increases | Decreases | Ending Balance |
|---|---|---|---|---|
| Capital assets being depreciated | | | | |
| Vehicles and equipment | $ 1,395 | | | $ 1,395 |
| Total capital assets being depreciated | 1,395 | | | 1,395 |
| Less accuumulated depreciation for: | | | | |
| Vehicles and equipment | (1,010) | $ (55) | | (1,065) |
| Total accumlated depreciation | (1,010) | (55) | | (1,065) |
| Total capital assets, being depreciated, net | 385 | (55) | | 330 |
| Business-type activity capital assets, net | $ 385 | $ (55) | $ | $ 330 |

Depreciation expense was charged to the following primary government functions as follows:

**Depreciation Expense**

(Expressed in Thousands)

| | |
|---|---|
| Governmental Activities: | |
| General Governments | $ 11,426 |
| Health and Children's Services | 3,974 |
| Judicial and Public safety | 12,118 |
| Natural Resources and Environmental Control | 2,408 |
| Labor | 70 |
| Education | 23,917 |
| Total Depreciation Expense - Governmental Activities | $ 53,913 |
| Business-type Activities: | |
| Transportation | **$** 19,540 |
| Lottery | 55 |
| Total Depreciation Expense- Business-type Activities | **$** 19,595 |

## NOTE 13. RISK MANAGEMENT

The State is exposed to various risks of losses related to workers' compensation, employee health-care and accident, automobile accident, police professional malpractice and property and casualty claims. It is the policy of the State not to purchase commercial insurance to cover these risks. Instead, State management believes it is more economical to manage its risk internally and thus, covers all claim settlements and judgments out of its General Fund. The State continues to carry commercial insurance for all other risks of loss, including general liability and the remainder of the property and casualty liability. There have been no significant reductions in insurance coverage from prior years. In the past three years of insured coverage, settled claims have not exceeded commercial coverage.

Claim liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claim liabilities depend on such complex factors as inflation, changes in legal doctrines and damage awards, the process does not result in an exact amount. Claim liabilities are reevaluated annually to take into consideration recently settled claims, the frequency of claims and other economic and social factors.

The management of the State estimates that the amount of actual or potential claims against the State as of June 30, 2004, for workers' compensation, automobile accident and health-care claim liabilities is $120.2 million. The claim liabilities relating to health-care totaling $47.2 million have been recorded as accrued liabilities in the Governmental activities. The liability for workers' compensation and automobile accident liabilities totaling $73.0 million has been recorded in Governmental activities as claims and judgments. The current portion of these claims totals $16.2 million. Other claim liabilities relating to police professional malpractice and property and casualty were not recorded at June 30, 2004 as the total of these liabilities were not material to the financial statements. Changes in the balances of claim liabilities during fiscal years 2003 and 2004 were as follows:

**Changes in Claim Liabilities**
(Expressed in Thousands)

| Fiscal Year | Beginning Balance July 1 | Current Year Claims and Changes in Estimates | Actual Claim Payments | Ending Balance June 30 |
|---|---|---|---|---|
| 2003 | $ 97,414 | $ 429,108 | $ (413,064) | $ 113,458 |
| 2004 | $ 113,458 | $ 473,449 | $ (466,664) | $ 120,243 |

### *DelDOT Fund*

The Delaware Transit Corporation (DTC) maintains coverage auto insurance through both the retention of risk and the purchase of commercial insurance. The DTC has recorded $3.7 million of claim liabilities as claims and judgments. Of this amount, $2.2 million has been recorded as current.

## NOTE 14. PENSIONS

### PRIMARY GOVERNMENT

### *State of Delaware Pension Plans*

The State Board of Pension Trustees administers the defined benefit plans (the Plans) of the Delaware Public Employees' Retirement System (DPERS) on the following page.

- State Employees' Pension Plan;
- Special Pension Plan;
- New State Police Pension Plan;
- Judiciary Pension Plans (Closed and Revised);
- County and Municipal Police/Firemen's Pension Plans (FICA and Non-FICA);
- County and Municipal Other Employees' Pension Plan;
- Volunteer Firemen's Pension Plan;
- Diamond State Port Corporation Pension Plan; and
- Closed State Police Pension Plan.

With the exception of the Diamond State Port Corporation Pension Plan, the State of Delaware General Assembly is responsible for setting benefits and contributions and amending plan provisions. The Board of Directors for the Diamond State Port Corporation is responsible for setting benefits and contributions and amending plan provisions.

The individual Plans comprising the DPERS are considered part of the State's financial reporting entity and are included in the accompanying financial statements as pension trust funds in the fiduciary funds. All of the investment assets of the Plans, with the exception of the Closed Police Pension Plan, are pooled and invested in the common DPERS Master Trust Fund (Master Trust). Each of the Plans has equity in the Master Trust based on funds contributed and earnings allocated. Individual investments in the Master Trust are not specifically identified to the various Plans.

Additionally, the following non-DPERS funds, described below, have been established under the custody of the State Board of Pension Trustees.

- County and Municipal Police/Firemen's COLA Fund;
- Post-Retirement Increase Fund;
- Delaware Local Government Retirement Investment Pool; and
- Delaware Post-Retirement Health Insurance Premium Fund.

***Non-DPERS Fund Descriptions and Contributions***

**County and Municipal Police and Firemen's COLA Fund**

During 1990, the passed legislation which established a mechanism for funding post-retirement increases granted by employers who participate in the County and Municipal Police and Firemen's Pension Plans. This mechanism allows the State to appropriate funds relating to a cost of living adjustment (COLA) to a separate County and Municipal Police and Firemen's COLA Fund managed by the Board. The funds are generated by a 0.25% tax on the value of insurance premiums written within the

State. The State and local governments transfer the proceeds of the tax on a per officer basis. The portion of the tax payable relating to the State Police is re-directed into the COLA Fund. When a participating employer grants a post-retirement increase, funds are transferred from the COLA Fund to the employer. The participating employer must provide funds to match the State's contribution.

**Post-Retirement Increase Fund (PRI)**

During 1993, the State passed legislation which established a mechanism for funding ad hoc post-retirement increases granted by the General Assembly to employees retired under the State Employees' Plan, the New State Police Plan and the Judiciary Plans (Closed and Revised) beginning with Fiscal Year 1994. The mechanism allows the State to appropriate actuarially determined employer contributions to a separate PRI Fund managed by the Board. When the Legislature grants an ad hoc post-retirement adjustment, funds are transferred from this PRI Fund on a monthly basis based on a five-year actuarial funding schedule to the appropriate pension plan from which the additional benefits are disbursed.

**Investment Trust Fund**

In June 1996, the State passed legislation that established the Delaware Local Government Retirement Investment Pool (DELRIP) in the custody of the Board of Pension Trustees to allow local governments the option to pool their pension assets with the Delaware Public Employees' Retirement System. The DELRIP is an external investment pool that allows local governments to maximize their rate of return and reduce administrative expenses related to the investment of funds. There were two participating entities in the DELRIP as of June 30, 2004, which comprises the pool in its entirety.

The DELRIP is subject to the oversight of the System's Investment Committee and not subject to the regulatory oversight of the Securities and Exchange Commission (SEC). The System has not provided or obtained any legal binding guarantees during the year to support the value of shares. The fair value of the portion in the pool is the same as the value of the Master Trust shares.

**Post-Retirement Health Insurance Premium Fund**

The Post-Retirement Health Insurance Premium Fund, which was established in June of 2000, is a cost-sharing multiple-employer defined benefit post-employment healthcare plan that covers retired employees of the State Employees' Pension Plan. The State provides health insurance to eligible retirees and their dependents. The State Legislature under 29 Del Code, Chapter 52 has the authority to establish and amend benefit provisions, including contributions requirements. Retired plan members and beneficiaries currently receiving benefits are required to contribute specified amounts monthly toward the cost of health insurance premiums.

In addition to the premium payments described above, the State provides post-retirement health care benefits, in accordance with State statutes, to all employees who retire from the State after meeting the eligibility requirements. The State reimburses substantially all validated claims for medical and hospitalization costs incurred by pre-Medicare retirees and their dependents. The State also pays a fixed amount of $301.56 per month for a Medicare supplement for each retiree eligible for Medicare. Expenditures for post-retirement health care benefits are recognized as retirees report claims. During the year, General Government expenditures of $75,429,000 were recognized in the General Fund for post-retirement health care.

### *Plan Membership, Benefit and Contribution Provisions*

A description of the individual plans including eligibility provisions, types of benefits and contribution requirements are set forth in general terms below and on the following pages. Detailed information regarding these plans is available in the Delaware Code and in the Rules and Regulations of the Board of Pension Trustees.

#### State Employees' Pension Plan

Plan Description and Eligibility: The State Employees' Pension Plan is a cost-sharing multiple employer defined benefit plan that covers virtually all full-time or regular part-time employees of the State, including employees of other affiliated entities.

Service Benefits: Final average monthly compensation multiplied by 2.0% and multiplied by years of credited service prior to January 1, 1997 plus final average compensation multiplied by 1.85% and multiplied by years of credited service after December 31, 1996, subject to minimum limitations. For this plan, final average monthly compensation is the monthly average of the highest three years of compensation.

Vesting: Five (5) years of credited service.

Retirement: Age 62 with five (5) years of credited service; age 60 with 15 years of credited service; or after 30 years of credited service at any age

Disability Benefits: Same as Service Benefits. Employee must have five (5) years of credited service.

Survivor Benefits: If employee is receiving a pension or is active with at least five (5) years of credited service, eligible survivor receives 50% (or 75% with 3% reduction of benefit) of the benefit the employee would have received at age 62.

Contributions:

- Employer - Determined by Board of Pension Trustees.
- Employee - 3% of earnings in excess of $6,000.

Death Benefit: $7,000 per member.

#### Special Pension Plan

Plan Description and Eligibility: The Special Pension Plan is a cost sharing multiple employer defined benefit plan that covers benefits granted to certain retirees or groups of retirees through legislation passed by the General Assembly.

Service Benefits: Defined by special legislation.

Vesting: Not applicable.

Retirement: Not applicable.

Disability Benefits: Not applicable.

Survivor Benefits: Same as State Employees' Plan.

Contributions: Employer contributions are actuarially determined and fully funded in advance by the General Assembly.

Death Benefit: $7,000 per member.

### New State Police Pension Plan

Plan Description and Eligibility: The New State Police Pension Plan is a single-employer defined benefit plan that covers all State police officers appointed on or after July 1, 1980.

Service Benefits: 2.5% of final average monthly compensation multiplied by years of credited service up to 20 years, plus 3.5% of final average monthly compensation multiplied by years of service in excess of 20 years. For this plan, final monthly average compensation is the monthly average of the highest three consecutive years of compensation.

Vesting: Ten (10) years of credited service at any age.

Retirement: Age 55 with ten (10) years of credited service; age plus credited service (but not less than 10 years) equals 75; or 20 years of credited service.

Disability Benefits: Duty - *Total Disability* - 75% of compensation plus 10% for each dependent not to exceed 25% for all dependents. *Partial Disability* - calculated the same as Service Benefits subject to minimum 50% of final average compensation.

Non-Duty –same as service benefits.

Survivor Benefits: If employee is receiving a pension, the eligible survivor receives 50% of pension; if employee is active, eligible survivor receives 50% of compensation.

Contributions:

- Employer - Determined by Board of Pension Trustees.
- Employee - 7% of compensation.

Death Benefit: $7,000 per member.

### Judiciary Pension Plans (Closed and Revised)

Plan Description and Eligibility:

The Closed Judiciary Pension Plan is a single-employer defined benefit plan that covers members of State Judiciary appointed before July 1, 1980.

The Revised Judiciary Pension Plan is a single-employer defined benefit plan that covers members of State Judiciary appointed on or after July 1, 1980 or members appointed before July 1, 1980 who accept the provisions of this Plan.

Assets of one Plan can be used to satisfy the liabilities of the other Plan.

Service Benefits:

Closed - Three percent (3%) of average annual compensation multiplied by years of credited service, subject to minimum and maximum limitations.

Revised - 1/24th of final average monthly compensation multiplied by years of service up to 12 years, plus 1/48th of final average monthly compensation, multiplied by years of service from 13 to 24 years, subject to maximum limitations.

For this plan, final average monthly compensation is the monthly average of the highest three consecutive years of compensation.

Vesting: 12 years of credited service.

Retirement:

Closed - Age 65 with 12 years of credited service, or any age with 24 years of credited service.

Revised - Age 62 with 12 years of credited service, or any age with 24 years of credited Service.

Disability Benefits: Same as Service Benefits

Survivor Benefits:

Closed - If employee is receiving a pension, then eligible survivor receives 2/3 of pension; if employee is active with 12 years of credited service, eligible survivor receives 2/3 of pension the employee would have been eligible to receive.

Revised - If employee is receiving a pension, then eligible survivor receives 1/2 of pension (2/3 with 3% reduction); if employee is active, eligible survivor receives 2/3 of pension the employee would have received at age 62.

Contributions:

- Employer - Determined by Board of Pension Trustees.
- Employee:
  - Closed - $500 per year for the first 25 years of service.
  - Revised - 3% of earnings that exceed $6,000 per year, plus 2% of earnings that exceed the Social Security Wage Base for the first 24 years of service.

Death Benefit: Not applicable.

### County and Municipal Police/Firefighters' Pension Plans (FICA & Non-FICA)

Plan Description and Eligibility: County and Municipal Police/Firefighters' Pension Plan, both FICA and Non-FICA, are cost-sharing multiple employer defined benefit plans that cover police officers/ firemen employed by a county or municipality of the State which have become part of the Plan.

Service Benefits: 1/40th of final average monthly compensation multiplied by years of credited service, subject to limitations. For this plan, final average monthly compensation is the monthly average of the highest three consecutive years of compensation.

Vesting: Ten (10) years of credited service.

Retirement: Age 62 with ten (10) years of service; age plus credited service (but not less than 10 years) equals 75; or 20 years of credited service.

Disability Benefits:

Duty - Total Disability - 75% of final average compensation plus 10% for each dependent not to exceed 25% for all dependents; Partial Disability - calculated the same as Service benefits.

Non-Duty - Same as Service Benefits.

Survivor Benefits: If employee is receiving a pension, then eligible survivor receives 50% of pension; if employee is active, eligible survivor receives 50% of pension the employee would have received at age 62.

Contributions:

- Employer - Determined by Board of Pension Trustees.
- Employee - FICA covered - 5% of compensation.
  Non-FICA covered - 7% of compensation.

Death Benefit: Not applicable.

### County and Municipal Other Employees' Pension Plan

Plan Description and Eligibility: County and Municipal Other Employees' Pension Plan is a cost-sharing multiple employer defined benefit plan that covers employees other than police officers and fire fighters of counties or municipalities which have become part of the Plan.

Service Benefits: 1/60th of final average monthly compensation multiplied by years of credited service, subject to maximum limitations. For this plan, final average monthly compensation is the monthly average of highest five years of compensation.

Vesting: Five (5) years of credited service.

Retirement: Age 62 with five (5) years of credited service, age 60 with 15 years of credited service, or after 30 years of credited service.

Disability Benefits: Same as Service Benefits. Employee must have five (5) years of credited service.

Survivor Benefits: If employee is receiving a pension or is active with at least five (5) years of credited service, then eligible survivor receives 50% of pension the employee would have received at age 62.

Contributions:

- Employer - Determined by Board of Pension Trustees.
- Employee - 3% of earnings in excess of $6,000, plus 2% of earnings that exceed the Social Security Wage Base.

Death Benefit: Not applicable.

### Volunteer Firemen's Pension Plan

Plan Description and Eligibility: The Volunteer Firemen's Pension Plan is a cost-sharing multiple employer defined benefit plan which covers all actively participating volunteers of fire departments, ladies auxiliaries, or ambulance organizations within the State of Delaware.

Service Benefits: $5 multiplied by years of credited service (not to exceed 25 years) per month.

Vesting: Ten (10) years of credited service.

Retirement: Age 60 with ten (10) years credited service.

Disability Benefits: Not applicable.

Survivor Benefits: Not applicable.

Contributions:

- Employer - Determined by Board of Pension Trustees.
- Volunteer Member - $60 per member per calendar year.

Death Benefit: Not applicable.

## Diamond State Port Corporation Pension Plan

Plan Description and Eligibility: The Diamond State Port Corporation Pension Plan is a single-employer defined benefit plan that covers all employees of the Diamond State Port Corporation.

Service Benefits: 1.75% of final average monthly compensation multiplied by the years of credited service (not to exceed 30 years). For this plan, final average monthly compensation is the monthly average of the highest consecutive five (5)years of compensation within the last ten years of employment.

Vesting: Five (5) years of credited service.

Retirement: Age 65 with five (5) years of credited service, or age (not less than 55 years) plus credited service equals 90.

Disability Benefits: Same as Service Benefits. Employee must have fifteen (15) years of credited service.

Survivor Benefits: If employee is receiving a pension or is active with at least fifteen (15) years of credited service, then eligible survivor receives 50% of pension the employee would have received at age 65.

Contributions:

- Employer - Determined by Board of Pension Trustees.
- Employee - 2% of compensation.

Death Benefit: Not applicable.

## Closed State Police Pension Plan

Plan Description and Eligibility: The Closed State Police Pension Plan is a single-employer defined benefit plan that covers all State police officers appointed before July 1, 1980.

Service Benefits: 50% of monthly salary.

Vesting / Retirement: 20 years of credited service or age 55.

Disability Benefits: Duty - 75% of salary. Non-Duty - 50% of salary.

Survivor Benefits: If employee is active or is receiving a service or service-related disability pension, the eligible survivor receives 75% of pension; if employee is receiving a non-service related disability pension, eligible survivor receives 50% of pension.

Contributions:

- Employer - The Closed State Police Plan is funded on a pay-as-you-go basis.
- Employee - 5% of salary with 20 years or less of credited service; 2% of salary with over 20 years credited service.

Death Benefit: $7,000 per member.

## Historical Trend Information

Historical trend information for the current year and the preceding five years designed to provide information about progress made by the individual plans in accumulating sufficient assets to pay benefits when due is presented in the separately issued financial report of the DPERS.

The DPERS issues a publicly available financial report that includes financial statements and required supplementary information for each of the individual plans and funds identified above. The financial report may be obtained by writing to the State Board of Pension Trustees and Office of Pensions, McArdle Building, Suite #1, 860 Silver Lake Boulevard, Dover, Delaware 19904-2402.

### Pension Investments

As of June 30, 2004, the following managers have investments at fair value in excess of 5% of the DPERS net assets held in trust for pension benefits:

| | Fair Value (Expressed in Thousands) |
|---|---|
| Mellon Capital Asset Allocation Fund | $ 1,244,914 |
| T. Rowe Price Natural Resource | 444,962 |
| Oaktree International Convertibles | 373,185 |
| Lincoln Capital - Fixed | 333,855 |
| Total | $ 2,396,916 |

## NET PENSION OBLIGATION (NPO)

The Annual Pension Cost (APC) and Net Pension Obligation (NPO) for the Closed State Police Plan for the fiscal years ended June 30, 2004, 2003, and 2002 are presented below.

**Net Pension Obligation (NPO)**

| | Fiscal Year Ended June 30, 2004 | Fiscal Year Ended June 30, 2003 | Fiscal Year Ended June 30, 2002 |
|---|---|---|---|
| | (Expressed in Thousands) | | |
| Annual Required Contribution | $ 27,747 | $ 27,654 | $ 27,831 |
| Interest on Net Pension Obligation | 6,849 | 6,099 | 5,257 |
| Adjustment to Annual Required Contribution | (7,075) | (6,265) | (5,371) |
| Annual Pension Cost | 27,521 | 27,488 | 27,717 |
| Less Contributions Made | (19,480) | (18,667) | (17,805) |
| Increase in Net Pension Obligation | 8,041 | 8,821 | 9,912 |
| Net Pension Obligation, Beginning of Year | 80,577 | 71,756 | 61,844 |
| Net Pension Obligation, End of Year | $ 88,618 | $ 80,577 | $ 71,756 |

**Deferred Compensation Plan**

The State offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all State of Delaware employees, permits them to defer a portion of their salary to future years. Participation in the Plan is optional. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. The Plan changed in January 2001 to include an employer-matching contribution. The State will match the first $10 per pay contributed by employees who have worked for the State at least for six months. Maximum annual State match per employee is $260. The State contribution totaled $1,825,070 for the year ended June 30, 2004.

***Delaware Transportation Authority***

Generally, employees of the Expressways Operations/Toll Administration are covered under DPERS. The Delaware Transit Corporation (DTC), a subsidiary public corporation of the Delaware Transportation Authority, contributes to two single-employer defined benefit plans consisting the Contributory Pension Plan and the Delaware Transit Corporation (DTC) Pension Plan. Each plan provides retirement, disability and death benefits to plan members and beneficiaries. Each plan issues a publicly available financial report that includes financial statements and required supplementary information. Those reports may be obtained by writing or calling the Delaware Transit Corporation at 900 Public Safety Boulevard, Dover, DE 19901.

The trustees of each plan establish and may amend the contribution requirements of plan members and DTC. The most recent information available for DTC's annual pension cost and related information for each plan may be found in Required Supplementary Information on page 97.

Effective January 1, 2003, the Contributory Pension Plan contribution and employer match percentages increased from 3.0% to 5% for North District Fixed Route operators and maintenance personnel. The contribution and employer match percentages for Paratransit operators and South District Fixed Route operators increased from 3.0% to 5.0% effective July 1, 2003.

Required supplementary information concerning funding policies and annual pension costs is included on page 98. Annual pension cost is equal to the respective plans required and actual contributions.

**Three-Year Trend Information**

(Expressed in Dollars)

| | Plan Year Ended | Contribution Made | Annual Pension Cost (APC) | Percent Of APC Contributed | Net Pension Obligation |
|---|---|---|---|---|---|
| DTC Pension Plan | 06/30/2004 | $ 820,350 | $ 749,796 | 109.41% | - |
| | 06/30/2003 | 545,328 | 693,100 | 78.68% | - |
| | 06/30/2002 | 975,255 | 641,054 | 152.13% | - |
| Contributory Pension Plan | 12/31/2003 | $ 548,215 | $ 913,947 | 60.00% | - |
| | 12/31/2002 | 346,939 | 563,584 | 61.56% | - |
| | 12/31/2001 | 326,681 | 256,801 | 127.21% | - |

N/A = Not Applicable

## Component Units

### *Delaware State Housing Authority (DSHA)*

All full time or regular part-time State employees of the DSHA are covered under the DPERS plan, including post-retirement health care. For the year ended June 30, 2004, the Authority was required to contribute 11.56% of covered payroll to the DPERS plan. The Authority's contribution to the DPERS for the year ended June 30, 2004 was $213,631, equal to the required contribution for the year. Full-time non-state employees of the Public Housing Program and Section 8 Program are covered by the "Housing-Renewal and Local Agency Retirement Plan," a defined contribution plan funded by contributions from both the Authority and the covered employees. Non-State employees of the DSHA are required to contribute 3.5% of their base salary. The DSHA's contribution rate of annual salaries is 11.56% for the period ended June 30, 2004. Total contributions made for the year amounted to $289,416.

The Authority provides post-retirement health care benefits, in accordance with Authority General Order Number 325, to all non-state employees who retire from the Authority after meeting the eligibility requirements. Currently, five retirees meet those requirements. Health care benefits paid during fiscal 2004 totaled $28,980. The set aside balance, which is held in the State of Delaware investment pool, totaled $235,926 as of June 30, 2004. The Authority decided the current set aside balance was sufficient for fiscal year 2004 and did not set aside additional funds.

### *Diamond State Port Corporation and Delaware State University*

Generally, employees of these discretely presented component units are covered under DPERS.

## NOTE 15. AFFILIATED ORGANIZATIONS

### Delaware State Lottery

#### *Multi-State Lottery Association*

The Multi-State Lottery Association (MUSL) was established in 1987. Its members include the Delaware State Lottery, an enterprise fund, and twenty-four other state lotteries. MUSL is governed by a Board of Directors, of which each member lottery is represented. The Board's responsibilities are to initiate, promulgate, and administer a multi-state lottery game for the mutual benefit of the member lotteries.

The total amount held as a deposit by the MUSL as of June 30, 2004, was $1,717,955. This amount, reported by the Lottery as restricted assets and as liabilities payable from restricted assets, represents funds to be paid to the State of Delaware, the Powerball game ends, if MUSL is not required to use a portion of the Lottery's reserves it holds.

Complete separate financial statements for MUSL may be obtained at the Multi-State Lottery Association, 1701 48th Street, Suite 210, West Des Moines, IA 50266-6723.

### DelDOT Fund

#### *Delaware Transportation Authority*

During fiscal year 1998, Expressways Operations/Toll Administration entered into a regional electronic toll collection system consortium. The consortium includes an agreement among member jurisdictions to share in the potential revenues and costs associated with the construction, financing and operations of an electronic toll collection customer service center (CSC). The CSC collects tolls and violation fees from motorists in each member jurisdiction and remits to each jurisdiction their share of tolls collected based upon actual road usage.

The CSC will also lease fiber optic transmission lines to the public, which will generate rental income to the CSC. The rental income and violation fees are expected to exceed the costs associated with operating the CSC. In the event that the CSC generates costs in excess of revenues during its ten-year operating term, each member jurisdiction will be obligated to finance their share of this operating deficit under the terms of a True-Up Agreement, which each member jurisdiction has signed.

At June 30, 2004 and June 30, 2003, a True-Up study revealed a probable liability relating to the above True-Up Agreement. While the exact amount of this liability, due in March 2008, is not known, a reasonable estimate based on information currently available is $12,000,000. This liability has been discounted to its present value based on the average investment rate of the Trust Fund at fiscal year end. The

discounted amount of $11,083,932 is recorded in claims and judgments at June 30, 2004. To accumulate funds for future payment of this contingency, the Delaware Transportation Authority is earmarking funds within its operating budget.

On March 25, 2003, the Trust Fund withdrew from the regional consortium that was governing the E-Zpass operation jointly with three agencies from other states. As of November 30, 2003, the Trust Fund has been operating its E-ZPass system independent of the regional consortium. According to the withdrawal agreement, the Trust Fund has received approximately $7.6 million for the completion of the fiber optic system. This amount was initially recorded as deferred revenue and vendor retainage payable and will be recorded as income as expenses are incurred. For the year ended June 30, 2004, expenses related to E-ZPass of $4,246,306 were included in miscellaneous revenue and Expressways /Operations/Toll Administration and interstate operating expense in the statement of revenues, expenses and change in fund net assets. The Trust Fund has agreed to pay its share of the True-Up due in March 2008.

Audited statements for the CSC may be obtained from Adesta Transportation Inc., 200 East Park Drive, Suite 600, Mt. Laurel, New Jersey 08054.

## NOTE 16. COMMITMENTS

The State has entered into various contractual commitments that contracts for services and for construction of various highway and capital projects. These commitments are expected to be funded from existing program resources, current and future appropriations and from the proceeds of revenue and general obligation bonds to be issued. Commitments of the Governmental funds totaling $290.5 million are shown on the balance sheet as Encumbrances. Commitments of the Proprietary fund activities include $197.7 million for the DelDOT fund and $120.0 million for the Lottery.

## NOTE 17. CONTINGENCIES

Various parties have made claims against the State. For those cases in which it is reasonably possible that a loss will be incurred and in which the amount of the potential judgment can be reasonably estimated, the State estimates the liability to be in the range of $22.3 million – $40.8 million, based on data provided by the State Attorney General. The State recognized $1.9 million as General Government claims and judgments liabilities for pending litigation settlements estimated to be probable as of June 30, 2004. In the opinion of the Attorney General of the State however, the remaining cases are either subject to a valid defense or are not expected to result in an impairment of the State's financial position. Management believes the settlement in aggregate of claims outstanding will not result in amounts material to the financial statements of the State.

The State receives significant financial assistance from the federal government in the form of grants and entitlements. The right to these resources is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits by the grantors. Any disallowances as a result of these audits become a liability of the State. The State does not believe that the liabilities that may result from such audits for periods through June 30, 2004 would have a material effect on its financial position or the results of operations.

The State Lottery has discharged its primary responsibility for payment of annual installments (generally 14 to 20 years) to winners of jackpots greater than $150,000 by purchasing annuities from private insurance companies. The Lottery remains liable for future periodic payments of deferred prize obligations (approximately $11.8 million at June 30, 2004) in the event that the annuity issuers default on their obligations.

## NOTE 18. SUBSEQUENT EVENT

***DelDOT Fund***

On October 20, 2004, the Delaware Transportation Authority issued $167.6 million in Transportation System Senior Revenue Bonds. These serial bonds mature between July 1, 2005 and July 1, 2024 and bear average interest rates of 3.89%. A portion of these proceeds, $73.5 million was used to advance refund $67.4 million of senior bonds. The remaining funds were used to provide funds for capital improvements to the State's transportation system.

## NOTE 19. PRIOR PERIOD ADJUSTMENT

***DELDOT Fund***

A prior period adjustment in the amount of $2,684,000 was made to correct errors in the calculation of depreciation for certain revenue and service vehicles, restating net assets at June 30, 2003 from $2,763,015,000 to $2,760,331,000.

**Component Units**

***Delaware State Housing Authority***

Beginning net assets of the Authority as of June 30, 2003 were restated for prior period adjustments. The adjustments principally relate to the HOME Program loan modification forgiving portion of accrued interest. Net assets of the Authority as of June 30, 2003 have been restated from $223,388,000 to $223,074,000.

***Delaware State University***

Beginning net assets of the Delaware State University as of June 30, 2003 have been restated from $130,170,612 to $129,021,896 due to the inclusion of the deficit net asset balance of the DSU Student Housing Foundation, a component unit of the University.

***Delaware Charter Schools***

Beginning net assets of the Delaware Charter Schools as of June 30, 2003 were restated by $4,403,000, relating to the inclusion of a component unit. Net assets of the Delaware Charter Schools as of June 30, 2003 were restated from $9,524,000 to $13,927,000.

# State of Delaware
# Comprehensive Annual Financial Report

# Required Supplementary Information

## NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

## BUDGETARY REPORTING

### BUDGETARY BASIS VS. GAAP

While GAAP requires the use of the fund structure described in Note 1C, the State's budget system uses only a General Fund and a Special Fund, each of which uses the basis of accounting described below. Additionally, the activities of certain component units of the State, which are not substantially supported by tax revenues, are not included in the budget data. Reconciliation of the accrual adjustments necessary to convert budgetary basis information to GAAP basis is presented in Required Supplementary Information.

The State Constitution requires the Governor to prepare and submit to the General Assembly a State budget for the ensuing year. The State budgets and controls its financial activities on the cash basis of accounting. In compliance with State law, the State records its financial transactions in either of two major categories -- the General Fund or the Special Fund. References to these two funds in this document include the terms "budgetary" or "budgetary basis" to differentiate them from the GAAP funds of the same name which encompass different funding categories. The General Assembly enacts the budget through the passage of specific line-item appropriations by department, the legal level of budgetary control, the sum of which must not exceed 98 percent of the estimated revenues and available unencumbered cash balance from the prior year pursuant to the State Constitution. The Governor has the power to approve or veto each appropriation passed by the General Assembly.

The budgetary General Fund provides for the cost of the State's general operations and is credited with all tax and other revenue of the State not dedicated to budgetary Special Funds. Certain Special Funds are subject to appropriation, referred to herein as budgetary or appropriated Special Funds. Unexpended appropriations at year-end are available for subsequent expenditure to the extent that they have been encumbered at that date or legislatively extended for another year. Budget data represents original appropriations modified by interdepartmental transfers, supplemental, continuing, and carried-over encumbered appropriations. Subsequent modifications to the budget require the approval of the Controller General and the Budget Director. Summary information regarding individual department budgets and the compliance with the legal level of budgetary control is presented on the following pages.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders) outstanding at year-end do not constitute expenditures or liabilities and are reported as reservations of fund balances because the commitments will be honored during the subsequent year.

The Budget schedules in Required Supplemental Information a) reflect the adjustments made to increase the Special Fund's excess of revenues over expenditures for certain revenue sources not previously recognized; b) eliminates the net activity of certain operations that are accounted for within both the Special Fund and also in the separate accounts of certain component units or agency funds that are not principally accounted for within the Special Fund; and c) presents the accrual adjustments necessary to convert budgetary basis information to GAAP basis.

**Statutory/Budgetary Presentation**

The Budgetary Comparison Schedule – Budget to Actual (Non-GAAP Budgetary Basis) presented on the following pages provides a comparison of the original and final legally adopted budget with actual data on a budgetary basis.

The original budget and related estimated revenues represent the spending authority enacted into law by the appropriations bill as of June 30, 2003, and does not include encumbrances and multi-year projects budgetary carry-forwards from the prior fiscal year. Generally accepted accounting principles (GAAP) require that the final legal budget be reflected in the “final budget” column, therefore updated revenue estimates available for appropriations as of the last Delaware Economic and Financial Advisory Council (DEFAC) meeting in June 2004, as well as the amounts shown in the original budget, are reported. The final legal budget also reflects encumbrances and multi-year projects budgetary carry-forwards from the prior fiscal year.

The tables on the following two pages represent the Budgetary Statements of Revenues, Expenditures and Changes in Fund Balance – General and Special Funds. Also included is a schedule showing the Budgetary Fund balance designations. Of the $645.7 million Budgetary General Fund Balance at June 30, 2004, $148.2 million is reserved for the Budget Reserve Account and $240.1 million is designated as continuing and encumbered appropriations. The $257.4 million of undesignated fund balance, for the most part, is not available for new spending as these funds have been committed based on State statutes.

**Budgetary Comparison Schedule - General Fund**
**Budget to Actual (Non-GAAP Budgetary Basis)**
**For the Fiscal Year Ended June 30, 2004**
(Expressed in Millions)

| | Budgeted Amounts | | Actual | Variance with |
|---|---|---|---|---|
| | Original | Final | Amounts | Final Budget |
| **REVENUES** | | | | |
| Personal Income Taxes | $ 734.1 | $ 774.8 | $ 715.4 | $ (59.4) |
| Business Taxes | 1,035.0 | 1,264.2 | 1,323.8 | 59.6 |
| Other Taxes | 121.1 | 176.8 | 177.5 | 0.7 |
| License, Permits, Fines and Fees | 160.8 | 195.5 | 184.5 | (11.0) |
| Interest Earnings | 20.7 | 8.0 | 9.0 | 1.0 |
| Lottery Sales | 213.0 | 222.0 | 222.0 | 0.0 |
| Other Non-Tax Revenue | 73.3 | 80.9 | 103.2 | 22.3 |
| Total revenues | 2,358.0 | 2,722.2 | 2,735.4 | 13.2 |
| **Expenditures** | | | | |
| Legislature | 12.0 | 14.1 | 10.9 | (3.2) |
| Executive | 85.1 | 131.5 | 82.4 | (49.1) |
| Department of Technology & Information | 29.3 | 35.8 | 33.3 | (2.5) |
| Other Elective Offices | 44.2 | 63.7 | 63.4 | (0.3) |
| Department of State | 14.7 | 22.4 | 15.0 | (7.4) |
| Department of Finance | 17.2 | 35.9 | 30.1 | (5.8) |
| Department of Administrative Services | 43.0 | 92.0 | 55.0 | (37.0) |
| Department of Agriculture | 6.6 | 7.7 | 7.2 | (0.5) |
| Department of Elections | 3.3 | 5.4 | 4.3 | (1.1) |
| Advisory Council for Exceptional Citizens | 0.1 | 0.1 | 0.1 | 0.0 |
| Department of Health & Social Services | 653.5 | 708.7 | 652.6 | (56.1) |
| Department of Services to Child/Youth/Families | 94.1 | 100.5 | 93.9 | (6.6) |
| Judicial | 66.3 | 72.6 | 69.8 | (2.8) |
| Legal | 28.6 | 29.6 | 29.2 | (0.4) |
| Department of Correction | 189.3 | 195.8 | 189.6 | (6.2) |
| Department of Safety & Homeland Security | 91.0 | 97.6 | 95.9 | (1.7) |
| Fire Prevention Commission | 3.9 | 4.3 | 4.0 | (0.3) |
| Delaware National Guard | 3.6 | 4.0 | 3.4 | (0.6) |
| Natural Resources and Environmental Control | 35.6 | 57.1 | 43.1 | (14.0) |
| Labor | 6.1 | 6.2 | 6.0 | (0.2) |
| Higher Education | 200.7 | 211.5 | 207.5 | (4.0) |
| Department of Education | 816.6 | 927.2 | 857.0 | (70.2) |
| Total expenditures | 2,444.8 | 2,823.7 | 2,553.7 | (270.0) |
| Excess (deficiency) of revenues over expenditures | (86.8) | (101.5) | 181.7 | (256.8) |
| **Budgetary fund balance, beginning of year** | 464.0 | 464.0 | 464.0 | 0.0 |
| **Budgetary fund balance, end of year** | $ 377.2 | $ 362.5 | $ 645.7 | $ (256.8) |
| **Budgetary Fund Balance** | | | | |
| Designated: | | | | |
| Budget reserve account | | | $ 148.2 | |
| Continuing and encumbered appropriations | | | 240.1 | |
| Undesignated | | | 257.4 | |
| Total | | | $ 645.7 | |

(See Budgetary Basis vs. GAAP in Notes to Required Supplementary Information)

**Budgetary Comparison Schedule - Special Fund**
**Budget to Actual (Non-GAAP Budgetary Basis)**
**For the Fiscal Year Ended June 30, 2004**
(Expressed in Millions)

| | Budgeted Amounts | | Actual | Variance with |
|---|---|---|---|---|
| | Original | Final | Amounts | Final Budget |
| **REVENUES** | | | | |
| Personal Income Taxes | $ 0.0 | $ 0.0 | $ 1.2 | $ 1.2 |
| Business Taxes | 25.8 | 25.8 | 12.0 | (13.8) |
| Other Taxes | 4.0 | 4.0 | 15.4 | 11.4 |
| License, Permits, Fines and Fees | 48.2 | 48.2 | 83.7 | 35.5 |
| Rentals and Sales | 15.5 | 15.5 | 11.5 | (4.0) |
| Interest Earnings | 3.7 | 3.7 | 12.3 | 8.6 |
| Grants | 3.4 | 3.4 | 26.7 | 23.3 |
| Other Non-Tax Revenue | 353.8 | 353.8 | 400.5 | 46.7 |
| Total Revenues | 454.4 | 454.4 | 563.3 | 108.9 |
| **Expenditures** | | | | |
| Executive | 94.1 | 97.7 | 42.2 | (55.5) |
| Department of Technology & Information | 22.3 | 29.2 | 19.1 | (10.1) |
| Other Elective Offices | 22.7 | 24.2 | 21.6 | (2.6) |
| Department of State | 15.3 | 19.8 | 13.9 | (5.9) |
| Department of Finance | 46.9 | 89.5 | 74.2 | (15.3) |
| Department of Administrative Services | 21.4 | 24.6 | 19.9 | (4.7) |
| Department of Agriculture | 4.1 | 4.2 | 3.2 | (1.0) |
| Department of Health & Social Services | 63.5 | 75.7 | 50.8 | (24.9) |
| Department of Services to Child/Youth/Families | 22.6 | 27.4 | 17.4 | (10.0) |
| Judicial | 8.6 | 9.4 | 7.4 | (2.0) |
| Legal | 5.5 | 8.7 | 6.3 | (2.4) |
| Department of Correction | 3.7 | 5.4 | 2.4 | (3.0) |
| Department of Safety & Homeland Security | 7.6 | 8.3 | 6.5 | (1.8) |
| Fire Prevention Commission | 2.2 | 2.4 | 1.7 | (0.7) |
| Natural Resources and Environmental Control | 46.6 | 52.4 | 28.0 | (24.4) |
| Transportation | 270.1 | 167.3 | 185.8 | 18.5 |
| Labor | 15.9 | 17.0 | 14.4 | (2.6) |
| Education | 3.5 | 10.3 | 4.0 | (6.3) |
| Total Expenditures | 676.6 | 673.5 | 518.8 | (154.7) |
| Excess (Deficiency) of Revenues Over Expenditures | (222.2) | (219.1) | 44.5 | 263.6 |
| **Budgetary Fund Balance, Beginning of Year** | 309.8 | 309.8 | 309.8 | 0.0 |
| **Budgetary Fund Balance, End of Year** | $ 87.6 | $ 90.7 | $ 354.3 | $ 263.6 |

| | |
|---|---|
| **Budgetary Fund Balance** | |
| Designated: | |
| Delaware Health Fund | $ 76.5 |
| Department of Administrative Services | 19.0 |
| Department of Finance | 6.6 |
| Department of Natural Resources and Environmental Control | 169.5 |
| Miscellaneous designated funds | 82.7 |
| Total | $ 354.3 |

(See Budgetary Basis vs. GAAP in Notes to Required Supplementary Information)

## Statutory/Budgetary Reconciliations

Since accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation is required of resulting basis, perspective and entity differences in the revenues in excess of (less than) expenditures and other financing sources (uses) between budgetary and GAAP presentations.

The following two schedules represent the accrual adjustments necessary to convert budgetary basis information to GAAP basis.

**Budget vs. GAAP Revenue Reconciliation**
**For the Fiscal Year Ended June 30, 2004**
(Expressed in Millions)

| | | |
|---|---|---|
| Budget Basis General and Special Fund Revenues for fiscal year 2004 | | $ 3,298.7 |
| Non Appropriated Revenue by Category: | | |
| Other Revenue | $ 187.4 | |
| License, Fees, Permits, and Fines | 33.1 | |
| Personal, Business and Other Taxes | 44.4 | |
| Federal Government | 15.3 | |
| Rentals and Sales | 12.2 | |
| Interest and Other Investment Income | 7.0 | |
| Accrued Revenue | 34.7 | |
| Reclassification of Revenue Received from Federal Government | 26.8 | |
| Other Accruals and Adjustments | (15.0) | |
| Appropriated Special Fund Revenues for the Department of Transportation | (10.0) | |
| Appropriated Special Fund Revenues for the Delaware State Housing Authority | (10.4) | |
| Accounts Payable for Tax Refunds | (25.4) | |
| Transfer in from Local Schools for Debt Service Payments | (27.5) | |
| Appropriated Special Fund Revenues for the Delaware State Lottery | (41.7) | |
| Enterprise Fund Revenues of the Department of Transportion | (190.1) | |
| Lottery Sales | (284.2) | |
| Total General Fund Revenues for the fiscal year ended June 30, 2004 | | 3,055.3 |
| Federal Funds Revenue | | 841.9 |
| Local School Fund Revenue | | 369.4 |
| Capital Projects Fund Revenue | | 0.1 |
| Total GAAP Basis Governmental Funds Revenue for fiscal year 2004 | | $ 4,266.7 |

## Budget vs. GAAP Expenditure Reconciliation
### For the Fiscal Year Ended June 30, 2004
(Expressed in Millions)

| | | |
|---|---|---|
| Total Budget Basis General and Special Fund Expenditures for fiscal year 2004 | | $ 3,072.5 |
| Non Appropriated Expenditures by Function: | | |
| General Government | $ 524.4 | |
| Health & Children's Services | 13.3 | |
| Judicial & Public Safety | 13.0 | |
| Natural Resources and Environmental Control | 63.1 | |
| Transportation | 8.2 | |
| Labor | 6.8 | |
| Education | 49.2 | |
| Thoroughbred and Harness Racing Commissions | 37.5 | |
| Delaware Department of Transportation Expenditures Reclassed for Enterprise Fund Reporting | (194.1) | |
| Delaware State University Expenditures | (30.0) | |
| Debt Service Expenditures | (135.2) | |
| Appropriated Special Fund Expenditures not included in the General Fund | (58.6) | |
| Accruals and Adjustments for GAAP Reporting | (318.7) | |
| Total General Fund Expenditures for the fiscal year ended June 30, 2004 | | 3,051.4 |
| Federal Revenue Funds Expenditures | | 810.0 |
| Local School District Funds Expenditures | | 345.0 |
| Capital Projects Funds Expenditures | | 165.7 |
| Total GAAP Basis Governmental Funds Expenditures for the fiscal year ended June 30, 2004 | | $ 4,372.1 |

## Required Supplementary Information

## Information About Infrastructure Assets Reported Using the Modified Approach

As allowed by GASB Statement No 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, the State has adopted an alternative process to recording depreciation expense on selected infrastructure assets. Under this alternative method, referred to as the modified approach, the State expenses certain maintenance and preservation costs and does not report depreciation expense. Assets accounted for under the modified approach include approximately 11,057 centerline miles and approximately 1,386 bridges that the State is responsible to maintain.

The condition of the State's road pavement is measured using the Overall Pavement Condition (OPC) system, which is based on the extent and severity of various pavement distresses that are visually observed. The OPC system uses a measurement scale that is based on a condition index ranging from 0 for poor pavement to 5 for pavement in excellent condition.

The condition of bridges is measured using the "Bridge Condition Rating" (BCR) which is based on the Federal Highway Administration (FHWA) Coding Guide, "Recording and Coding Guide for the Structure Inventory and Appraisal of the Nation's Bridges." The BCR uses a measurement scale that is based on a condition index ranging from 0-9, 0-4 for substandard bridges and 9 for bridges in perfect condition. For these reporting purposes, substandard bridges are classified as those with a rating of 4 or less. The good or better condition bridges were taken as those with ratings of between 6-9. A 5 rating is considered fair. The information is taken from past "Bridge Inventory Status" reports.

It is the State's policy to maintain at least 75 percent of its highways and bridge system at a good or better condition level. No more than 10 percent of bridges and 15 percent of roads should be in substandard condition. The Department of Transportation will perform condition assessments of eligible infrastructure assets at least every three years. Currently, road condition assessments are conducted every year and bridge condition assessments are conducted, for the most part every two years.

State of Delaware
Department of Transportation
Supplementary Information for Government That Use the
Modified Approach for Infrastructure Assets

## Structural Rating Numbers and Percentages for Bridges

Calendar Year Ended December 31

| | BCR Condition Rating | 2003 Number | 2003 Percent | 2002 Number | 2002 Percent | 2001 Number | 2001 Percent |
|---|---|---|---|---|---|---|---|
| Good | 6-9 | 1,012 | 74.5 | 1,011 | 72.9 | 1,057 | 77.7 |
| Fair | 5 | 259 | 19.0 | 273 | 19.7 | 232 | 17.1 |
| Poor | 1-4 | 89 | 6.5 | 102 | 7.4 | 70 | 5.2 |
| Totals | | 1,360 | | 1,386 | | 1,359 | |

## Deck Rating Numbers and Percentages for Bridges

Calendar Year Ended December 31

| | OPC Condition Rating | 2003 Square Meters | 2003 Percent | 2002 Square Meters | 2002 Percent | 2001 Square Meters | 2001 Percent |
|---|---|---|---|---|---|---|---|
| Good | 6-9 | 6,932,464 | 97.0 | 6,522,812 | 76.0 | 6,573,433 | 76.0 |
| Fair | 5 | 172,061 | 2.4 | 1,650,368 | 19.2 | 1,570,299 | 18.2 |
| Poor | 1-4 | 40,677 | 0.6 | 480,228 | 5.4 | 506,866 | 5.8 |
| Totals | | 7,145,202 | | 8,653,408 | | 8,650,618 | |

## Center-Line Mile Numbers and Percentages for Road Pavement

Calendar Year Ended December 31

| | OPC Condition Rating | 2003 Center-Line Mile | 2003 Percent | 2002 Center-Line Mile | 2002 Percent | 2001 Center-Line Mile | 2001 Percent |
|---|---|---|---|---|---|---|---|
| Good | 3.0-5.0 | 3,459 | 77.5 % | 3,196 | 76.6% | 973 | 80.8% |
| Fair | 2.5-3.0 | 641 | 14.4% | 568 | 13.6% | 136 | 11.3% |
| Poor | Below 2.5 | 364 | 8.1% | 411 | 9.8% | 95 | 7.9% |
| Totals | | 4,464 | | 4,175 | | 1,204 | |

## Comparison of Estimated-to-Actual Maintenance/Preservation

(Expressed In Thousands)

| | Fiscal Year 2004 | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|
| Estimated | $ 122,622 | $129,180 | $ 97,341 | $ 51,275 | $ 50,854 |
| Actual | $ 133,765 | $146,352 | $126,540 | $132,454 | $116,158 |

## Required Supplementary Information – Pensions

The following tables present additional information related to funding status and progress, annual pension costs and actuarial methods and assumptions. It is intended to help readers assess the individual plans' funding status on a going-concern basis and assess progress made in accumulating sufficient assets to pay benefits when due.

### Delaware Public Employees' Retirement System (DPERS)

The amount shown below as "actuarial accrued liability" is a measure of the difference between the actuarial present value of future plan benefits, and the actuarial present value of future normal cost.

**Delaware Public Employees' Retirement System**
**Schedule of Funding Status and Progress**

(Expressed in Thousands)

| Plan | Actuarial Valuation Date | (1) Actuarial Value of Assets | (2) Actuarial Accrued Liability (AAL) | (3) Unfunded AAL AAL AAL (UAAL) (Excess of Assets over Liabilities) (2) - (1) | (4) Funded Ratio (1) / (2) | (5) Annual Covered Payroll | (6) UAAL/ (Excess) as % of Covered Payroll (3) / (5) |
|---|---|---|---|---|---|---|---|
| State Employees' * | 6/30/04 | $ 5,387,560 | $ 5,529,927 | $ (157,633) | 103.0% | $ 1,399,279 | (11.3%) |
| | 6/30/03 | 5,125,442 | 4,794,944 | (330,498) | 106.9% | 1,355,800 | (24.4%) |
| | 6/30/02 | 4,956,156 | 4,521,732 | (434,424) | 109.6% | 1,351,112 | (32.2%) |
| Special | 6/30/04 | $ 933 | $ 785 | $ (148) | 118.9% | N/A | N/A |
| | 6/30/03 | 1,009 | 768 | (241) | 131.4% | N/A | N/A |
| | 6/30/02 | 1,832 | 742 | (1,090) | 246.9% | N/A | N/A |
| Closed State Police + | 6/30/04 | $ 2,979 | $ 285,044 | $ 282,065 | 1.0% | $ 2,608 | 10,815.4% |
| | 6/30/03 | 2,322 | 318,250 | 315,928 | 0.7% | 2,869 | 11,011.8% |
| | 6/30/02 | 2,036 | 318,687 | 316,651 | 0.6% | 3,105 | 10,198.1% |
| New State Police * | 6/30/04 | $ 134,507 | $ 128,932 | $ (5,575) | 104.3% | $ 36,718 | (15.2%) |
| | 6/30/03 | 120,457 | 106,272 | (14,185) | 113.3% | 31,778 | (44.6%) |
| | 6/30/02 | 109,615 | 91,928 | (17,687) | 119.2% | 30,281 | (58.4%) |
| Judiciary* | 6/30/04 | $ 32,841 | $ 38,864 | $ 6,023 | 84.5% | $ 7,672 | 78.5% |
| | 6/30/03 | 30,961 | 31,319 | 1,358 | 95.8% | 7,173 | 18.9% |
| | 6/30/02 | 29,049 | 30,122 | 1,073 | 96.4% | 7,329 | 14.6% |
| Diamond State Port Corporation | 6/30/04 | $ 8,140 | $ 9,049 | $ 909 | 88.5% | $ 8,950 | 10.2% |
| | 6/30/03 | 7,328 | 7,056 | (272) | 103.9% | 8,636 | (3.1%) |
| | 6/30/02 | 6,675 | 6,617 | (58) | 100.9% | 9,354 | (0.6%) |
| County and Municipal Police and Firefighters' | 6/30/04 | $ 48,983 | $ 45,204 | $ (3,689) | 108.2% | $ 27,930 | (13.2%) |
| | 6/30/03 | 41,228 | 36,698 | (4,530) | 112.3% | 24,128 | (18.8%) |
| | 6/30/02 | 35,053 | 30,344 | (4,709) | 115.5% | 21,342 | (22.1%) |
| County and Municipal Other Employees' | 6/30/04 | $ 4,275 | $ 3,340 | $ (935) | 128.0% | $ 7,474 | (12.5%) |
| | 6/30/03 | 3,602 | 3,332 | (270) | 108.1% | 6,209 | (4.3%) |
| | 6/30/02 | 3,033 | 2,816 | (217) | 107.7% | 2,545 | (8.5%) |
| | | | | | | Active ++ Members | Cost per Active Member ++ |
| Volunteer Firemen's | 6/30/04 | $ 10,121 | $ 21,950 | $ 11,829 | 46.1% | 5,055 | $ 2,340 |
| | 6/30/03 | 9,644 | 15,619 | 5,975 | 61.7% | 4,933 | 1,211 |
| | 6/30/02 | 9,333 | 14,940 | 5,607 | 62.5% | 4,856 | 1,155 |

* Excludes liability and amortization payments due to ad hoc benefit adjustments. This liability is funded from the Post-Retirement Increase Fund and is funded over five years.

\+ The Closed State Police Pension Plan is a pay-as-you-go pension plan.

++ Not expressed in thousands.

## Annual Pension Cost, Actuarial Methods and Assumptions - DPERS

The schedules below provide information concerning annual pension costs. Annual pension cost for each plan, except the Closed State Police Plan, is equal to the respective plan's required and actual contributions for the fiscal year ended June 30, 2004.

**Annual Pension Cost, Actuarial Methods and Assumptions**

(Expressed in Thousands)

| Plan | State Employees' | Special | Closed State Police | New State Police | Judiciary |
|---|---|---|---|---|---|
| Annual Pension Cost | $ 57,459 | N/A | $ 27,747 | $ 3,125 | $ 1,235 |
| Actuarial Valuation Date | 6/30/04 | 6/30/04 | 6/30/04 | 6/30/04 | 6/30/04 |
| Actuarial Cost Method | Entry Age Normal | N/A | Entry Age Normal | Entry Age Normal | Entry Age Normal |
| Amortization Method | Level Percent Closed for Plan Bases & Open for Aggregate Gain/Loss | N/A | Level Percent Closed | Level Percent Closed | Level Percent Closed |
| Remaining Amortization Period | 16.1 years | N/A | 32 years | 16 years | 17 years |
| Asset Valuation Method | 5-year Smoothed Market | 5-year Smoothed Market | 5-year Smoothed Market | 5-year Smoothed Market | 5-year Smoothed Market |
| Actuarial Assumptions: | | | | | |
| Investment rate of return | 8.0% | 8.0% | 8.0% | 8.0% | 8.0% |
| Projected Salary Increases* | 4.3% to 10.1% | N/A | 4.8% to 16.7% | 4.8% to 16.7% | 4.3% to 13.1% |
| Cost-of-living adjustments | Ad Hoc | Ad Hoc | Based on CPI | Ad Hoc | Ad Hoc |

| Plan | Diamond State Port Corporation | County & Municipal Police & Firefighters' | County & Municipal Other Employees | Volunteer Firemen's | Post-Retirement Health Insurance Premium Fund |
|---|---|---|---|---|---|
| Annual Pension Cost | $ 346 | $ 3,179 | $ 321 | $ 694 | |
| Actuarial Valuation Date | 6/30/04 | 6/30/04 | 6/30/04 | 6/30/04 | 6/30/04 |
| Actuarial Cost Method | Entry Age Normal | Entry Age Normal** | Entry Age Normal** | Entry Age Normal | Entry Age Normal |
| Amortization Method | Level Percent Closed | Level Percent Open | Level Percent Open | Level Dollar Closed | Level Percent Closed |
| Remaining Amortization Period | 18 years | 10 years | 10 years | 23 years | 30 years |
| Asset Valuation Method | 5-year Smoothed Market | 5-year Smoothed Market | 5-year Smoothed Market | 5-year Smoothed Market | 5-year Smoothed Market |
| Actuarial Assumptions: | | | | | |
| Investment rate of return | 8.0% | 8.0% | 8.0% | 8.0% | 8.0% |
| Projected Salary Increases* | 4.8% | 4.3% to 15.7% | 4.3% to 10.1% | N/A | 4.3% to 10.1% |
| Cost-of-living adjustments | Ad Hoc | Ad Hoc | Ad Hoc | Ad Hoc | Ad Hoc |

* Projected Salary Increases include an inflation component of 3.75% for all Plans.

** Actuarial cost method changed to Entry Age Normal from Frozen Initial Liability effective June 30, 2002.

### *DelDOT - Delaware Transit Corporation – Pension Data*

The most recent information available for Delaware Transit Corporation's annual pension cost and related information for each plan is as follows (note - the current year information is not available for each plan):

**Funding Status and Progress**

(Expressed in Dollars)

| Plan | Actuarial Valuation Date | (a) Actuarial Value of Assets | (b) Actuarial `Accrued Liability (AAL) | (c) Unfunded AAL (UAAL) (Excess of Assets over AAL) (a-b) | (d) Funded Ratio (a / b) | (e) Annual Covered Payroll | (f) UAAL (Excess) as % of Covered Payroll (c / e) |
|---|---|---|---|---|---|---|---|
| DTC Pension Plan | 07/01/2003 | $ 5,187,005 | $ 5,536,310 | $ (349,305) | 93.69% | $ 8,120,967 | (4.30%) |
| | 07/01/2002 | 4,355,464 | 4,727,035 | (371,571) | 92.14% | 7,690,602 | (4.83%) |
| | 07/01/2001 | 3,717,396 | 4,097,808 | (380,418) | 90.72% | 7,680,779 | (4.95%) |
| Contributory Pension Plan | 01/01/2003 | $ 13,423,352 | N/A | N/A | N/A | $ 16,185,321 | N/A |
| | 01/01/2002 | 13,207,197 | N/A | N/A | N/A | 14,754,161 | N/A |
| | 01/01/2001 | 14,294,487 | N/A | N/A | N/A | 12,236,975 | N/A |

**Annual Pension Cost, Actuarial Methods and Assumptions**

(Expressed in Dollars)

| Plan | DTC Pension Plan | Contributory Pension Plan |
|---|---|---|
| Contribution Rates: | | |
| Employer | Actuarially Determined | 5.00% |
| Participants | N/A | 5.00% |
| Annual Pension Cost | $ 749,796 | $ 913,347 |
| Contributions Made | $ 825,350 | $ 548,215 |
| Actuarial Valuation Date | 7/1/2003 | 01/01/2003 |
| Actuarial Cost Method | Frozen Initial Liability | Entry Age Normal |
| Remaining Amortization Period | 22 | N/A |
| Asset Valuation Method | Market | Smooth |
| Actuarial Assumptions: | | |
| Investment rate of return | 7.50% | 7.00% |
| Projected Salary Increases | 4.50% | 4.00% |

N/A = Not Applicable

# State of Delaware
# Comprehensive Annual
# Financial Report

# Supplementary
# Information -
# Combining Statements

**STATE OF DELAWARE**
**COMBINING STATEMENT OF FIDUCIARY NET ASSETS**
**DELAWARE PUBLIC EMPLOYEES' RETIREMENT SYSTEM**
**JUNE 30, 2004**
**(Expressed in Thousands)**

| | State Employees' Pension Plan | Special Pensions Plan | New State Police Plan | Judiciary Pension Plan | Volunteer Firemen's Pension Plan |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash | $ 3,762 | $ 16 | $ 412 | $ 26 | $ 23 |
| Receivables: | | | | | |
| Employer contributions | 2,710 | | 133 | 48 | |
| Member contributions | 1,648 | | 93 | 8 | |
| Total receivables | 4,358 | | 226 | 56 | |
| Investments at fair value: | | | | | |
| Domestic fixed income | 931,882 | 155 | 23,142 | 5,670 | 1,744 |
| Domestic equities | 1,567,496 | 260 | 38,927 | 9,537 | 2,933 |
| Pooled equity and fixed income | 1,262,104 | 209 | 31,343 | 7,678 | 2,362 |
| Managed futures | 102,111 | 17 | 2,536 | 621 | 191 |
| Private investments | 475,334 | 79 | 11,804 | 2,892 | 889 |
| Short term and money markets | 128,860 | 18 | 3,135 | 773 | 224 |
| Foreign equities | 773,792 | 128 | 19,216 | 4,708 | 1,448 |
| Total investments | 5,241,579 | 866 | 130,103 | 31,879 | 9,791 |
| **Total assets** | $ 5,249,699 | $ 882 | $ 130,741 | $ 31,961 | $ 9,814 |
| **Liabilities** | | | | | |
| Transfer of assets outside the system | | | | | |
| Benefits payable | $ 710 | | | $ 6 | $ 3 |
| Accrued administrative expenses | 309 | | $ 4 | 1 | |
| **Total liabilites** | 1,019 | | 4 | 7 | 3 |
| **Assets held in trust for pension benefits** | **$** 5,248,680 | **$** 882 | **$** 130,737 | **$** 31,954 | **$** 9,811 |

See Accompanying Notes to the Financial Statements

| Diamond State Port Corporation Fund | County and Municipal Firefighters' Firefighters' Plan | County and Municipal Police and Firefighters' Cola Fund | County and Municipal Other Plans | DPERS Post Retirement Increase Fund | SEPP Post Retirement Health Care Premium Fund | Closed State Police Plan | Totals |
|---|---|---|---|---|---|---|---|
| $ 25 | $ 496 | $ 2,140 | $ 42 | $ 505 | | $ 2,888 | $ 10,335 |
| 27 | 157 | | 21 | 1,355 | | | 4,451 |
| 13 | 77 | | 14 | | | 2 | 1,855 |
| 40 | 234 | | 35 | 1,355 | | 2 | 6,306 |
| 1,384 | 8,329 | 1,078 | 731 | 92 | $ 2,039 | | 976,246 |
| 2,328 | 14,010 | 1,813 | 1,230 | 155 | 3,430 | | 1,642,119 |
| 1,875 | 11,281 | 1,459 | 991 | 124 | 2,762 | | 1,322,188 |
| 152 | 912 | 118 | 80 | 11 | 224 | | 106,973 |
| 706 | 4,249 | 550 | 373 | 47 | 1,040 | | 497,963 |
| 160 | 1,094 | 148 | 74 | 15 | 281 | | 134,782 |
| 1,149 | 6,917 | 895 | 607 | 76 | 1,693 | | 810,629 |
| 7,754 | 46,792 | 6,061 | 4,086 | 520 | 11,469 | - | 5,490,900 |
| $ 7,819 | $ 47,522 | $ 8,201 | $ 4,163 | $ 2,380 | $ 11,469 | $ 2,890 | $ 5,507,541 |
| | | $ 530 | | | | | $ 530 |
| | | | | $ 3 | | | 722 |
| $ 2 | $ 7 | | $ 1 | | | $ 3 | 327 |
| 2 | 7 | 530 | 1 | 3 | | 3 | 1,579 |
| **$** 7,817 | **$** 47,515 | **$** 7,671 | **$** 4,162 | **$** 2,377 | **$** 11,469 | **$** 2,887 | **$** 5,505,962 |

See Accompanying Notes to the Financial Statements

**STATE OF DELAWARE**
**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**
**DELAWARE PUBLIC EMPLOYEES' RETIREMENT SYSTEM**
**FOR THE YEAR ENDED JUNE 30, 2004**
**(Expressed in Thousands)**

| | State Employees' Pension Plan | Special Pensions Plan | New State Police Plan | Judiciary Pension Plan | Volunteer Firemen's Pension Plan |
|---|---|---|---|---|---|
| **Additions** | | | | | |
| Contributions: | | | | | |
| Employer contributions | $ 57,459 | | $ 3,125 | $ 1,235 | $ 694 |
| Transfer of assets from Pension Retirement Increase Fund | 27,790 | | 36 | 253 | |
| Transfer of assets from outside the system | 1,500 | | | | |
| Member contributions | 36,007 | | 2,436 | 249 | 208 |
| Other | | | 14 | | |
| **Total contributions:** | 122,756 | | 5,611 | 1,737 | 902 |
| Investments: | | | | | |
| Investment income | 116,956 | $ 20 | 2,904 | 711 | 219 |
| Net increase (decrease) in fair value | 631,656 | 115 | 15,065 | 3,817 | 1,132 |
| Total investment income: | 748,612 | 135 | 17,969 | 4,528 | 1,351 |
| Less investment manager/advisor/custody fees | (15,995) | (3) | (397) | (97) | (30) |
| Less investment administrative expenses | (279) | | (7) | (2) | (1) |
| Net investment income: | 732,338 | 132 | 17,565 | 4,429 | 1,320 |
| **Total additions** | 855,094 | 132 | 23,176 | 6,166 | 2,222 |
| **Deductions:** | | | | | |
| Transfer of Assets from Pension Retirement Increase Fund | | | | | |
| Transfer of assets outside the system | 1,500 | | | | |
| Pension payments | 243,238 | 119 | 922 | 2,177 | 1,108 |
| Refunds of contributions to members | 2,333 | | 75 | 60 | 31 |
| Group life payments | 4,479 | 21 | | | |
| Administrative expenses | 4,622 | | | | |
| Allocation of administrative expenses | (250) | 3 | 53 | 8 | 17 |
| **Total deductions** | 255,922 | 143 | 1,050 | 2,245 | 1,156 |
| **Change in net assets increase/(decrease)** | 599,172 | (11) | 22,126 | 3,921 | 1,066 |
| **Net assets held in trust for pension benefits** | | | | | |
| **Balance - beginning of year** | 4,649,508 | 893 | 108,611 | 28,033 | 8,745 |
| **Balance - end of year** | $ 5,248,680 | $ 882 | $ 130,737 | $ 31,954 | $ 9,811 |

See Accompanying Notes to the Financial Statements

| Diamond State Port Corporation Fund | County and Municipal Police and Firefighters' Plan | County and Municipal Police and Firefighters' Cola Fund | County and Municipal Other Plans | DPERS Post Retirement Increase Fund | SEPP Post Retirement Health Care Premium Fund | Closed State Police Plan | Totals |
|---|---|---|---|---|---|---|---|
| $ 346 | $ 3,179 | | $ 321 | $ 20,744 | | $ 19,420 | $ 106,523 |
| | | | | | | | 28,079 |
| | | $ 2,660 | | | $ 1,500 | 6 | 5,666 |
| 164 | 1,696 | | 168 | | | 53 | 40,981 |
| | | | | | | | 14 |
| 510 | 4,875 | 2,660 | 489 | 20,744 | 1,500 | 19,479 | 181,263 |
| 174 | 1,045 | 135 | 92 | 11 | 256 | 51 | 122,574 |
| 898 | 5,193 | 888 | 461 | 837 | 1,361 | | 661,423 |
| 1,072 | 6,238 | 1,023 | 553 | 848 | 1,617 | 51 | 783,997 |
| (24) | (143) | (18) | (13) | (1) | (35) | | (16,756) |
| | (2) | | | | (1) | | (292) |
| 1,048 | 6,093 | 1,005 | 540 | 847 | 1,581 | 51 | 766,949 |
| 1,558 | 10,968 | 3,665 | 1,029 | 21,591 | 3,081 | 19,530 | 948,212 |
| | | | | 28,079 | | | 28,079 |
| | | 2,356 | | | 1,500 | | 5,356 |
| 199 | 447 | | 61 | | | 18,901 | 267,172 |
| 23 | 48 | | 19 | | | 3 | 2,592 |
| | | | | | | 63 | 4,563 |
| | | | | | | | 4,622 |
| 30 | 60 | | 29 | | | 50 | |
| 252 | 555 | 2,356 | 109 | 28,079 | 1,500 | 19,017 | 312,384 |
| 1,306 | 10,413 | 1,309 | 920 | (6,488) | 1,581 | 513 | 635,828 |
| 6,511 | 37,102 | 6,362 | 3,242 | 8,865 | 9,888 | 2,374 | 4,870,134 |
| $ 7,817 | $ 47,515 | $ 7,671 | $ 4,162 | $ 2,377 | $ 11,469 | $ 2,887 | $ 5,505,962 |

See Accompanying Notes to the Financial Statements

**STATE OF DELAWARE**
**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**
**ALL AGENCY FUNDS**
**FOR THE YEAR ENDED JUNE 30, 2004**
(Expressed in Thousands)

| **Child Support Collection:** | Balance July 1, 2003 | Additions | Deductions | Balance June 30, 2004 |
|---|---|---|---|---|
| Assets | | | | |
| Cash and cash equivalents | $ 1,883 | $ 348,172 | $ 349,172 | $ 883 |
| Investments | 998 | 2,252 | 2,964 | 286 |
| Receivables, net | 65 | 965 | 378 | 652 |
| Total assets | $ 2,946 | $ 351,389 | $ 352,514 | $ 1,821 |
| Liabilities | | | | |
| Accounts payable | $ 2,946 | $ 351,389 | $ 352,514 | $ 1,821 |
| Total liabilities | $ 2,946 | $ 351,389 | $ 352,514 | $ 1,821 |

| **Court Fines and Restitution:** | Balance July 1, 2003 | Additions | Deductions | Balance June 30, 2004 |
|---|---|---|---|---|
| Assets | | | | |
| Cash and cash equivalents | $ 13,877 | $ 21,715 | $ 24,344 | $ 11,248 |
| Investments | 598 | 6,278 | 5,868 | 1,008 |
| Receivables, net | 15,773 | 7,045 | 5,129 | 17,689 |
| Total assets | $ 30,248 | $ 35,038 | $ 35,341 | $ 29,945 |
| Liabilities | | | | |
| Accounts payable | $ 30,248 | $ 35,038 | $ 35,341 | $ 29,945 |
| Total liabilities | $ 30,248 | $ 35,038 | $ 35,341 | $ 29,945 |

| **All Other Agency Funds** | Balance July 1, 2003 | Additions | Deductions | Balance June 30, 2004 |
|---|---|---|---|---|
| Assets | | | | |
| Cash and cash equivalents | $ 10,133 | $ 35,968 | $ 36,613 | $ 9,488 |
| Investments | 7,251 | 23,262 | 23,295 | 7,218 |
| Receivables, net | 4,545 | 132 | 3,009 | 1,668 |
| Total assets | $ 21,929 | $ 59,362 | $ 62,917 | $ 18,374 |
| Liabilities | | | | |
| Accounts payable | $ 21,929 | $ 59,362 | $ 62,917 | $ 18,374 |
| Total liabilities | $ 21,929 | $ 59,362 | $ 62,917 | $ 18,374 |

| **Totals - All Agency Funds** | Balance July 1, 2003 | Additions | Deductions | Balance June 30, 2004 |
|---|---|---|---|---|
| Assets | | | | |
| Cash and cash equivalents | $ 25,893 | $ 406,225 | $ 410,129 | $ 21,619 |
| Investments | 8,847 | 31,792 | 32,127 | 8,512 |
| Receivables, net | 20,383 | 8,142 | 8,516 | 20,009 |
| Total assets | $ 55,123 | $ 445,789 | $ 450,772 | $ 50,140 |
| Liabilities | | | | |
| Accounts payable | $ 55,123 | $ 445,789 | $ 450,772 | $ 50,140 |
| Total liabilities | $ 55,123 | $ 445,789 | $ 450,772 | $ 50,140 |

See Accompanying Notes to the Financial Statements

State of Delaware
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# Statistical Section

# STATE OF DELAWARE
# CONDENSED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - GENERAL FUND
# FOR THE YEAR ENDED JUNE 30:

(Expressed in Thousands)

| | 1995 | 1996 | 1997 | 1998 | 1999 |
|---|---|---|---|---|---|
| REVENUES: | | | | | |
| Taxes (1) | $ 1,508,344 | $ 1,540,565 | $ 1,566,922 | $ 1,797,295 | $ 1,864,867 |
| Licenses, fines, permits and fees (10) | 564,706 | 515,359 | 581,344 | 586,908 | 641,972 |
| Rentals & sales | 78,267 | 87,430 | 96,747 | 100,226 | 92,777 |
| Federal government | 71,685 | 104,380 | 72,575 | 58,381 | 6,144 |
| Interest and other investment income | 29,485 | 42,603 | 41,940 | 47,643 | 44,443 |
| Other revenues (10) | 130,492 | 163,503 | 164,056 | 217,116 | 306,106 |
| TOTAL REVENUES | 2,382,979 | 2,453,840 | 2,523,584 | 2,807,569 | 2,956,309 |
| EXPENDITURES: | | | | | |
| General Government (2) (10) | 445,874 | 443,165 | 473,140 | 528,965 | 795,965 |
| Health and Children's Services (3) | 498,833 | 530,187 | 534,840 | 563,689 | 599,021 |
| Judicial and Public Safety (4) | 238,737 | 241,873 | 263,195 | 274,368 | 310,939 |
| Natural Resources and Environmental Control | 87,355 | 120,993 | 77,484 | 80,932 | 104,788 |
| Labor (6) | | | | | |
| Transportation (8) | 99,746 | 111,999 | 109,889 | 109,964 | 117,498 |
| Education (5) | 603,491 | 669,046 | 748,669 | 809,590 | 824,277 |
| Payment to Componet Unit - | | | | | |
| General Government (10) | | | | | |
| Education (10) | | | | | |
| Other (6) | 24,485 | 39,254 | 64,802 | 67,178 | 88,785 |
| Debt service: (9) | | | | | |
| Principle | | | | | |
| Interest | | | | | |
| TOTAL EXPENDITURES | 1,998,521 | 2,156,517 | 2,272,019 | 2,434,686 | 2,841,273 |
| EXCESS OF REVENUES OVER EXPENDITURES | 384,458 | 297,323 | 251,565 | 372,883 | 115,036 |
| OTHER SOURCES (USES) OF FINANCIAL RESOURCES | | | | | |
| Operating transfers in | 43,250 | 266,009 | 326,474 | 279,333 | 318,550 |
| Operating transfers out | (245,185) | (491,794) | (484,481) | (430,367) | (447,595) |
| Other sources (uses) | 14,751 | 646 | | | |
| NET OTHER USES | (187,184) | (225,139) | (158,007) | (151,034) | (129,045) |
| SOURCES OVER (UNDER) EXPENDITURES AND OTHER (USES) | 197,274 | 72,184 | 93,558 | 221,849 | (14,009) |
| FUND BALANCE AT BEGINNING OF YEAR | 308,957 | 506,231 | 578,415 | 671,973 | 893,822 |
| RESIDUAL EQUITY TRANSFER OUT TO COMPONENT UNITS | | | | | |
| FUND BALANCE AT END OF YEAR | $ 506,231 | $ 578,415 | $ 671,973 | $ 893,822 | $ 879,813 |

(1) Taxes includes Personal Income Taxes and Business Taxes

(2) General Government summarizes the expenditures of the following General Government Departments; Legislative, Executive, Other Elective Offices, State, Administrative Services, Agriculture, Elections and the Advisory Council for Exceptional Citizens.

(3) Health and Children's Services summarizes the expenditures of the Departments of Health and Social Services and Services for Children, Youth and Their Families

(4) Judicial and Public Safety summarizes the expenditures of the following Departments: Judicial, Legal, Corrections, Safety and Homeland Security, Fire Prevention and the Delaware National Guard.

(5) Education summarizes the expenditures of the Departments of Higher Education and Public Education.

(6) "Other" summarizes the expenditures of the following Departments: Labor, Agriculture, Elections, Fire Prevention, the Delaware National Guard and the Advisory Council for Exceptional Citizens. Effective fiscal year 2001 the category "Other" was eliminated and departments were grouped with similar or related functions. Fiscal year 2000 expenditures were restated for comparability purposes.

(7) Fund Balance has been restated due to the implementation of GASB Statement No. 34.

(8) The Department of Transportation is reported as an Enterprise Fund and is no longer part of the General Fund in 2002.

(9) Debt service activities are accounted for in the General Fund starting in fiscal year 2002.

(10) Reclassification of expenses in 2002 due to GASB 34

| | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|---|
| REVENUES: | | | | | |
| Taxes (1) | $ 1,925,457 | $ 2,023,671 | $ 2,032,305 | $ 2,093,993 | $ 2,382,877 |
| Licenses, fines, permits and fees (10) | 733,593 | 728,265 | 227,051 | 241,370 | 295,379 |
| Rentals & sales | 102,831 | 312,228 | 26,592 | 20,621 | 22,347 |
| Federal government | 66,473 | 46,333 | 52,279 | 61,966 | 70,735 |
| Interest and other investment income | 61,761 | 82,971 | 46,756 | 65,205 | 30,713 |
| Other revenues (10) | 227,463 | 112,388 | 186,374 | 216,068 | 253,259 |
| TOTAL REVENUES | 3,117,578 | 3,305,856 | 2,571,357 | 2,699,223 | 3,055,310 |
| EXPENDITURES: | | | | | |
| General Government (2) (10) | 816,346 | 881,189 | 454,186 | 398,653 | 406,179 |
| Health and Children's Services (3) | 664,909 | 737,169 | 781,383 | 839,173 | 847,665 |
| Judicial and Public Safety (4) | 352,344 | 374,342 | 386,457 | 395,086 | 410,876 |
| Natural Resources and Environmental Control | 105,847 | 108,086 | 100,218 | 97,951 | 131,469 |
| Labor (6) | 15,775 | 18,132 | 27,131 | 25,568 | 27,649 |
| Transportation (8) | 132,481 | 144,690 | | | |
| Education (5) | 890,541 | 1,007,084 | 1,023,968 | 1,003,769 | 1,023,950 |
| Payments to Componet Units - | | | | | |
| General Government (10) | | | 8,821 | 5,947 | 1,952 |
| Education (10) | | | 40,571 | 53,633 | 67,900 |
| Other (6) | | | | | |
| Debt service: (9) | | | | | |
| Principle | | | 79,757 | 84,079 | 94,522 |
| Interest | | | 34,134 | 33,676 | 39,246 |
| TOTAL EXPENDITURES | 2,978,243 | 3,270,692 | 2,936,626 | 2,937,535 | 3,051,408 |
| EXCESS OF REVENUES OVER EXPENDITURES | 139,335 | 35,164 | (365,269) | (238,312) | 3,902 |
| OTHER SOURCES (USES) OF FINANCIAL RESOURCES | | | | | |
| Operating transfers in | 368,379 | 412,735 | 333,566 | 474,634 | 399,037 |
| Operating transfers out | (474,086) | (597,693) | (30,020) | (31,180) | (56,198) |
| Other sources (uses) | | | (20,764) | (177,728) | (79,882) |
| NET OTHER USES | (105,707) | (184,958) | 282,782 | 265,726 | 262,957 |
| SOURCES OVER (UNDER) EXPENDITURES AND OTHER (USES) | 33,628 | (149,794) | (82,487) | 27,414 | 266,859 |
| FUND BALANCE AT BEGINNING OF YEAR | 879,813 | 912,355 | (7 1,004,126 | 921,639 | 949,053 |
| RESIDUAL EQUITY TRANSFER OUT TO COMPONENT UNITS | (1,086) | | | | |
| FUND BALANCE AT END OF YEAR | $ 912,355 | $ 762,561 | $ 921,639 | $ 949,053 | $ 1,215,912 |

# STATE OF DELAWARE
# REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
# ALL GOVERNMENTAL FUNDS
# FOR THE YEAR ENDED JUNE 30:

(Expressed in Thousands)

| | 1995 | 1996 | 1997 | 1998 | 1999 |
|---|---|---|---|---|---|
| Taxes (1) | $ 1,680,781 | $ 1,720,945 | $ 1,758,772 | $ 1,999,391 | 2,077,462 |
| Licenses, fees, permits & fines (9) | 564,766 | 515,415 | 581,467 | 587,086 | 642,081 |
| Rentals & sales | 91,001 | 101,883 | 112,056 | 115,440 | 107,609 |
| Federal government | 478,070 | 587,288 | 599,263 | 635,114 | 621,069 |
| Interest and other investment income | 42,369 | 53,207 | 55,563 | 69,508 | 66,148 |
| Other revenues (9) | 160,682 | 217,218 | 187,924 | 244,453 | 329,515 |
| TOTAL REVENUES | $ 3,017,669 | $ 3,195,956 | $ 3,295,045 | $ 3,650,992 | 3,843,884 |
| | | | | | |
| General Government (2) (9) | $ 474,278 | $ 480,946 | $ 526,490 | $ 576,910 | 857,308 |
| Health and Children's Services (3) | 762,388 | 810,489 | 830,907 | 874,074 | 933,107 |
| Judicial and Public Safety | 246,323 | 250,834 | 270,105 | 292,775 | 327,254 |
| Natural Resources & Envoronmental Control | 111,011 | 147,916 | 106,274 | 104,251 | 123,479 |
| Labor (6) | | | | | |
| Transportation (7) | 243,347 | 304,023 | 317,350 | 336,793 | 380,667 |
| Education (5) | 916,880 | 1,006,230 | 1,085,730 | 1,157,766 | 1,193,678 |
| Payment to Componet Unit - | | | | | |
| General Government (9) | | | | | |
| Education (9) | | | | | |
| Other (6) | 57,730 | 72,353 | 98,017 | 102,390 | 126,077 |
| Capital outlay (8) | | | | | |
| Debt service - | | | | | |
| Principal (7) | 84,163 | 88,827 | 92,778 | 102,244 | 108,175 |
| Interest (7) | 68,933 | 70,353 | 65,954 | 68,367 | 68,895 |
| Costs of issuance of debt (10) | | | | | |
| TOTAL EXPENDITURES | $ 2,965,053 | $ 3,231,971 | $ 3,393,605 | $ 3,615,570 | 4,118,640 |

(1) Taxes includes Personal Income Taxes and Business Taxes

(2) General Government summarizes the expenditures of the following General Government Departments; Legislative, Executive, Other Elective Offices, State, Finance, Administrative Services, Agriculture, Elections, and the Advisory Council for Exceptional Citizens.

(3) Health and Children's Services summarizes the expenditures of the Departments of Health and Social Services and Services for Children, Youth and Their Families.

(4) Judicial and Public Safety summarizes the expenditures of the following Departments: Judicial, Legal, Corrections, Public Safety, Fire Prevention and the Delaware National Guard.

(5) Education summarizes the expenditures of the Departments of Higher Education and Public Education.

(6) "Other" summarizes the expenditures of the following Departments: Labor, Agriculture, Elections, Fire Prevention, the Delaware National Guard and the Advisory Council for Exceptional Citizens. Effective fiscal year 2001, the category "Other" was eliminated and departments were grouped with similar or related functions. Fiscal year 2000 expenditures were restated for comparability purposes.

(7) The Department of Transportation is reported as an Enterprise Fund effective fiscal year 2002.

(8) Presented by Department and function prior to fiscal year 2002

(9) Reclassification of expenses in 2002 due to GASB 34

(10) Cost of Issuance of Debt reported as expense effective fiscal year 2004

Source: Delaware's Comprehensive Annual Financial Report

| | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|---|
| Taxes (1) | $ 2,141,475 | $ 2,257,952 | $ 2,271,259 | $ 2,352,666 | $ 2,673,622 |
| Licenses, fees, permits & fines (9) | 733,851 | 728,414 | 228,599 | 241,663 | 296,238 |
| Rentals & sales | 118,422 | 333,747 | 49,576 | 43,461 | 51,793 |
| Federal government | 790,201 | 664,263 | 731,918 | 775,725 | 913,880 |
| Interest and other investment income | 81,843 | 111,374 | 58,624 | 73,911 | 36,109 |
| Other revenues (9) | 231,997 | 153,234 | 230,241 | 260,270 | 295,087 |
| TOTAL REVENUES | $ 4,097,789 | $ 4,248,984 | $ 3,570,217 | $ 3,747,696 | $ 4,266,729 |
| | | | | | |
| General Government (2) (9) | $ 865,673 | $ 938,328 | $ 466,848 | $ 413,096 | $ 422,785 |
| Health and Children's Services (3) | 1,050,181 | 1,175,376 | 1,261,128 | 1,372,705 | 1,407,976 |
| Judicial and Public Safety | 372,274 | 398,293 | 407,608 | 410,084 | 439,640 |
| Natural Resources & Envoronmental Control | 128,222 | 128,272 | 125,301 | 116,399 | 165,960 |
| Labor (6) | 45,347 | 49,228 | 60,572 | 59,500 | 62,716 |
| Transportation (7) | 429,447 | 293,358 | | | |
| Education (5) | 1,297,611 | 1,446,986 | 1,440,044 | 1,432,937 | 1,501,237 |
| Payment to Componet Unit - | | | | | |
| General Government (9) | | | 8,821 | 5,927 | 1,952 |
| Education (9) | | | 40,571 | 68,850 | 73,361 |
| Other (6) | | | | | |
| Capital outlay (8) | | | 168,418 | 189,713 | 162,154 |
| Debt service - | | | | | |
| Principal (7) | 115,961 | 120,281 | 79,757 | 84,079 | 94,522 |
| Interest (7) | 67,881 | 70,012 | 34,134 | 33,676 | 39,246 |
| Costs of issuance of debt (10) | | | | | 515 |
| TOTAL EXPENDITURES | $ 4,372,597 | $ 4,620,134 | $ 4,093,202 | $ 4,186,966 | $ 4,372,064 |

## Demographic and Economic Statistics

The following tables present pertinent demographic and economic statistics. These figures demonstrate that Delaware's growth in population surpassed the growth experienced by nearby states in the Mideast region (Maryland, New Jersey, New York and Pennsylvania) and the nation as a whole over the last ten years. Per capita personal income of Delaware residents advanced 1.6%, with Delaware's per capita personal income the 15th highest in the nation.

### Population Statistics

(Expressed in Thousands)

| Calendar | Delaware | | Mid-Atlantic Region | | United States | |
|---|---|---|---|---|---|---|
| Year | Population | Change | Population | Change | Population | Change |
| 1994 | 718 | 1.7 % | 44,970 | 0.6 % | 263,126 | 1.2 % |
| 1995 | 730 | 1.7 | 45,186 | 0.5 | 266,278 | 1.2 |
| 1996 | 741 | 1.5 | 45,384 | 0.4 | 269,394 | 1.2 |
| 1997 | 751 | 1.3 | 45,580 | 0.4 | 272,647 | 1.2 |
| 1998 | 763 | 1.6 | 45,822 | 0.5 | 275,854 | 1.2 |
| 1999 | 775 | 1.6 | 46,106 | 0.6 | 279,040 | 1.2 |
| 2000 | 787 | 1.5 | 46,390 | 0.6 | 282,224 | 0.1 |
| 2001 | 797 | 1.3 | 46,655 | 0.6 | 285,318 | 0.1 |
| 2002 | 807 | 1.3 | 46,919 | 0.6 | 288,369 | 0.1 |
| 2003 | 817 | 1.2 | 47,084 | 0.4 | 290,810 | 0.8 |

Source: U.S. Department of Commerce

### Per Capita Personal Income

| Year | Delaware | Change | United States | Change | Delaware as Percent of U.S. |
|---|---|---|---|---|---|
| 1994 | $ 24,218 | 2.7 % | $ 22,340 | 3.7 % | 108 % |
| 1995 | 24,992 | 3.2 | 23,255 | 4.1 | 107 |
| 1996 | 26,140 | 4.6 | 24,270 | 4.4 | 108 |
| 1997 | 26,807 | 2.6 | 25,412 | 4.7 | 105 |
| 1998 | 28,662 | 6.9 | 26,893 | 5.8 | 107 |
| 1999 | 29,312 | 2.3 | 27,880 | 3.7 | 105 |
| 2000 | 31,092 | 6.1 | 29,760 | 6.7 | 104 |
| 2001 | 32,166 | 3.5 | 30,413 | 2.2 | 106 |
| 2002 | 32,307 | 0.4 | 30,832 | 1.4 | 105 |
| 2003 | 32,810 | 1.6 | 31,632 | 2.6 | 104 |

Source: U.S. Department of Commerce

In 2003, Delaware, along with all other U.S. states and territories, implemented a new way of gathering and reporting economic data. The Standard Industrial Classification (SIC) System, which had been in place since the 1930's, has been replaced by the North

American Industry Classification System (NAICS). NAICS is considered an improvement over SIC because NAICS was designed with modern economy in mind. NAICS differs from SIC in that it more fully recognizes the rise in economy's service and information bases. Additionally, whereas under SIC all employees working in a particular firm were classified under a single code, NAICS makes distinctions within each firm. For example, within the same firm, production workers are classified under "manufacturing" but the CEO would be recognized separately as "headquarters" staff. Clearly, the change in the classification systems means that any comparisons of current NAICS based data with SIC based data are likely to produce unreliable results. Delaware, along with the U.S. Bureau of Labor Statistics, has undertaken the difficult task of reconstructing and restating industry data since 1990 in NAICS format. Accordingly, readers should be aware that such data is not based upon actual historical series and reliance thereon should be limited.

The following table presents trends in employment in the State by major categories for the last five years.

**Composition of Delaware Labor Force**
For the Calendar Year Ended December 31
(Expressed in Thousands)

| | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|
| Civilian Labor Force Data | | | | | |
| Employed (1) | 376.0 | 399.2 | 413.1 | 402.1 | 399.0 |
| Unemployed | 13.7 | 16.4 | 14.7 | 17.8 | 18.3 |
| Total | 389.7 | 415.6 | 427.8 | 419.9 | 417.3 |
| NAICS Data | | | | | |
| Construction and Mining | 24.7 | 24.6 | 24.5 | 24.2 | 24.3 |
| Manufacturing | 44.0 | 41.5 | 37.1 | 36.8 | 35.7 |
| Wholesale | 12.4 | 13.2 | 13.6 | 13.5 | 14.2 |
| Retail Trade | 50.9 | 51.4 | 51.1 | 51.0 | 51.6 |
| Transportation, Warehousing and Utilities | 14.6 | 14.2 | 12.8 | 12.3 | 12.3 |
| Information | 7.8 | 8.1 | 7.7 | 7.8 | 7.4 |
| Financial Activities | 39.1 | 39.0 | 38.7 | 38.5 | 45.5 |
| Professional and Business Services | 69.2 | 73.5 | 68.5 | 68.6 | 59.0 |
| Education and Health Services | 43.9 | 45.5 | 48.7 | 48.9 | 49.8 |
| Leisure and Hospitality | 34.7 | 35.8 | 37.6 | 37.7 | 38.2 |
| Other Services | 15.9 | 15.9 | 17.9 | 17.8 | 18.2 |
| Government | 55.1 | 56.6 | 57.1 | 56.1 | 57.4 |
| Non-Agricultural Employment Total (2) | 412.3 | 419.3 | 415.3 | 413.2 | 413.6 |

(1) This indicator reflects the number of Delaware residents 16 years of age or older, who worked at least one hour for pay or profit, and includes employment in agriculture, proprietors, self-employed, unpaid family workers and domestic workers.

(2) Based on reconstructed and restated data complying with the North American Industry Classification System (NAICS) (see discussion below). This indicator includes persons on Delaware non-agricultural establishment payrolls, regardless of their place of residence, and does not include proprietors, self-employed, unpaid workers, domestic workers and military personnel.

Source: Delaware Department of Labor

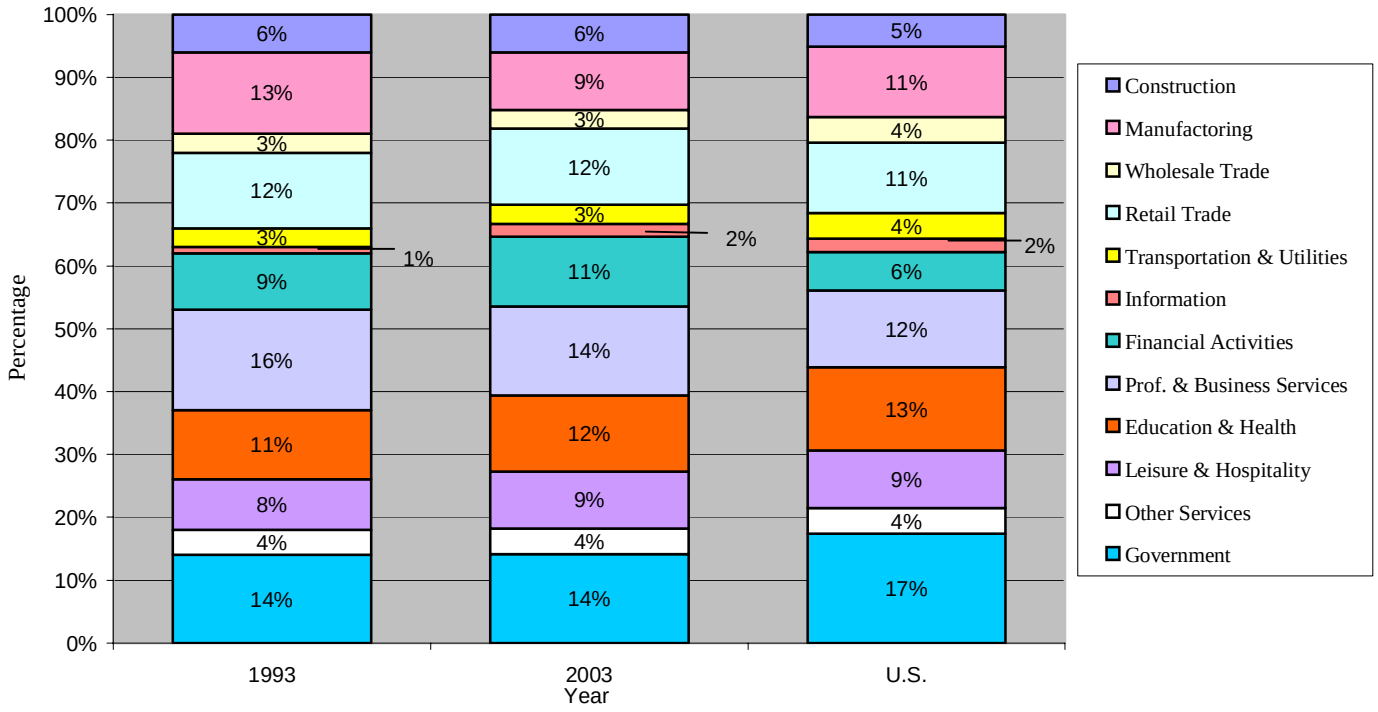
The following table depicts non-agricultural employment growth for Delaware, the Mideast region and the U.S. for 1999-2003.

**Non-Agricultural Employment Growth Rates**

| | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|
| Delaware | 3.1% | 1.9% | (0.7%) | (1.6%) | (0.4%) |
| Mideast Region | 2.3% | 2.4% | 0.6% | (0.5%) | (0.2%) |
| United States | 2.4% | 2.2% | 0.3% | (1.1%) | (0.3%) |

The following chart shows Delaware's employment base has enjoyed vigorous growth in historically smaller sectors within the State. Once heavily reliant on the manufacturing base, Delaware has experienced gains in several of the service industries and now stands below the national average for dependence on manufacturing. The diversification of the State's economic base will help Delaware to continue to weather the economic downturns and strengthen the State's economic position in future years.

**Percentage Distribution of Employment**




Sources: U.S. Department of Labor and Delaware Department of Labor

As of December 31, 2003, Delaware's unemployment rate was among the fourth lowest in the U.S. Delaware's unemployment rate as of June 2004 was 3.7%, significantly lower than the regional rate of 4.6% and the national rate of 5.6%. The following table presents the average annual unemployment rates for Delaware, the Mideast region and the United States for the last ten years.

**Unemployment Rates**

| Year | Delaware | Mideast Region | United States |
|---|---|---|---|
| 1995 | 4.3 % | 5.6 % | 5.6 % |
| 1996 | 5.2 (1) | 5.3 | 5.4 |
| 1997 | 4.0 | 4.9 | 4.9 |
| 1998 | 3.8 | 4.2 | 4.5 |
| 1999 | 3.5 | 4.0 | 4.2 |
| 2000 | 3.9 | 3.6 | 4.0 |
| 2001 | 3.4 | 4.2 | 4.8 |
| 2002 | 4.2 | 5.1 | 5.8 |
| 2003 | 4.4 | 5.1 | 6.0 |
| 2004 | 3.7 | 4.6 | 5.6 |

(1) Reflects the temporary closing of two automobile production plants

Sources: U.S. Department of Labor and Delaware Department of Labor

The table below lists the fifteen largest private employers in the State as of June 30, 2004.

**Delaware's Largest Private Employers**

| Name | Nature | Number of Employees |
|---|---|---|
| MBNA America | Commercial banking | 11,000 |
| E.I. duPont de Nemours & Co., Inc. | Chemicals and energy; corporate headquarters | 9,400 |
| Christiana Care Health Services | Hospital complex and home healthcare subsidiary | 6,300 |
| AstraZeneca, Inc. | Pharmaceuticals and specialty chemicals; corporate headquarters | 4,900 |
| Mountaire Farms of Delmarva, Inc. | Food processor | 3,400 |
| Wal-Mart Inc. | Retail chain | 3,400 |
| J. P. Morgan Chase & Co. | Commercial Banking | 2,900 |
| Alfred I. duPont Institute | Children's health care facility | 2,900 |
| Perdue Farms, Inc. | Boilers, feed and grains | 2,700 |
| Bayhealth Medical Center | Hospital complex | 2,500 |
| Bank One | Commercial banking | 2,400 |
| Wilmington Trust Co. | Banking | 2,200 |
| Happy Harry's Inc. | Retail chain | 2,200 |
| DaimlerChrysler | Automotive assembly | 2,100 |
| General Motors Corp | Automotive assembly | 1,900 |

Each county within the State determines the assessed values of real estate for taxation purposes. The following table depicts the assessed and full valuation of all taxable real property of the State as well as a comparison of the total value of residential, commercial and non-building construction contracts and the total bank deposits for the years 1994 through 2003. The next table depicts public and higher education school enrollments for the last ten years.

**Property Valuation, Construction and Bank Deposits**

(Expressed in Millions)

| Calendar Year | Assessed Valuation (1) | Full Valuation | Value of Construction Contracts (2) | Bank Deposits (3) |
|---|---|---|---|---|
| 1994 | $ 17,518 | $ 39,826 | $ 705 | $ 36,320 |
| 1995 | 17,894 | 39,319 | 863 | 40,746 |
| 1996 | 18,212 | 41,793 | 800 | 42,720 |
| 1997 | 18,663 | 43,264 | 934 | 62,149 |
| 1998 | 19,132 | 45,961 | 892 | 63,837 |
| 1999 | 19,519 | 47,431 | 1,036 | 73,226 |
| 2000 | 19,940 | 51,998 | 982 | 88,733 |
| 2001 | 20,303 | 55,367 | 934 | 94,413 |
| 2002 | 20,750 | 59,595 | 824 | 102,456 |
| 2003 | 21,312 | 68,987 | 823 | 108,675 |

(1) The assessed and full valuation of all taxable real property as of June 30 of each year.

(2) The total value of construction contracts awarded as of December 31 of each year.

(3) The total value of bank deposits as of December 31 of each year.

Sources: Delaware Department of Education
Delaware State Banking Commission
F.W. Dodge Division, McGraw-Hill

**School Enrollment**

| School Year | Public School Enrollment (1) | Public and Private Higher Education Enrollment | Total |
|---|---|---|---|
| 1994 | 104,284 | 43,192 | 147,476 |
| 1995 | 105,619 | 42,940 | 148,559 |
| 1996 | 107,348 | 44,537 | 151,885 |
| 1997 | 109,538 | 45,241 | 154,779 |
| 1998 | 112,160 | 46,155 | 158,315 |
| 1999 | 113,595 | 46,476 | 160,071 |
| 2000 | 113,699 | 45,563 | 159,262 |
| 2001 | 114,693 | 47,031 | 161,724 |
| 2002 | 115,545 | 48,842 | 164,387 |
| 2003 | 117,052 | 48,720 | 165,772 |

(1) Excludes children of military personnel living on Dover Air Force Base who attend Base schools and whose education is federally funded.

Sources: Delaware Department of Education
Delaware Higher Education Commission

# Debt Limits

There is no Constitutional debt limit of the State.

In 1991, the General Assembly passed legislation to replace the prior statutory debt limits with a three-part debt limit, as follows:

First, the aggregate principle amount of new "tax-supported obligations of the State" (hereinafter defined) which may be authorized in any one fiscal year (excluding refunding bonds) may not exceed 5% of estimated net budgetary General Fund revenue for that fiscal year. This is determined by a joint resolution approved by a majority of the members elected to each house of the General Assembly and signed by the Governor in connection with the adoption of the annual Budget Appropriation Bill for that fiscal year (the 5% Rule). The June 2004 budgetary General Fund revenue estimate for fiscal year 2005 was $2,765.1 million, thus a total of $138.3 million of new general obligation debt was permissible under the 5% Rule. For fiscal year 2005, $138.3 million was authorized (including $180,000 from deauthorized amounts). The authorization for the issuance of the bonds consists of authorizations from fiscal 2004 as well as prior years.

The level of new tax-supported debt authorization permitted under the 5% Rule is set out in the following table. The figures assume the September 2004 budgetary General Fund revenue projections of the Delaware Economic and Financial Advisory Council (DEFAC) for fiscal 2006. From the DEFAC's fiscal 2005 estimate, the figures assume 3.8% annual revenue growth for fiscal 2006, 3.2% annual growth for fiscal 2007, and 4.0% annual growth for 2008 and 4.6% for 2009, respectively.

**The 5% Rule**

(Expressed in Millions)

| | Fiscal 2005 | Fiscal 2006 | Fiscal 2007 | Fiscal 2008 | Fiscal 2009 |
|---|---|---|---|---|---|
| Estimated Net Budgetary General Fund Revenue | $ 2,777.2 | $ 2,881.5 | $ 2,974.8 | $ 3,092.5 | $ 3,236.0 |
| Projected New Tax-Supported Debt Authorizations | $ 138.3 | $ 144.1 | $ 148.7 | $ 154.6 | $ 161.8 |

Second, no "tax-supported obligations of the State" and no "Transportation Trust Fund ("Trust Fund" or "TTF") debt obligations" (hereinafter defined) of the Delaware Transportation Authority may be incurred if the aggregate maximum annual payments on all such outstanding obligations exceed 15% of the estimated budgetary General Fund revenue plus Transportation Trust Fund revenue for the fiscal year following the fiscal year in which such obligation is incurred (the "15% Test"). As of fiscal 2004, this ratio stands at 8.1%.

Third, no general obligation debt (with certain exclusions) may be incurred if the maximum annual debt service payable in any fiscal year on all such outstanding obligations will exceed the estimated cumulative cash balances (including all reserves) for the fiscal year following the fiscal year in which such obligation is incurred (the "Cash Balances Test") as estimated by the Secretary of Finance. As of fiscal 2004, the debt service payable represents 29.5% of the estimated cumulative cash balance.

"Tax-supported obligations of the State" include: a) all obligations of the State or any agency or authority thereof to which the State's full faith and credit is pledged and; b) all obligations of the State or any agency or authority thereof extending beyond one year with respect to the lease, occupancy or acquisition of property which are incurred in connection with debt financing transactions, and which are payable from taxes, fees, permits, licenses and fines imposed or approved by the General Assembly. Tax-supported obligations do not include: a) obligations incurred to acquire a like principal amount of full faith and credit obligations issued by a local school district to the extent local school district obligations are not in default; b) any obligation notes of the Delaware Transportation Authority; c) any tax or other revenue anticipation notes or bonds of the State; d) obligations to the extent that the debt service is reasonably expected to be offset (as determined by the Secretary of Finance) by lease payments, user fees, federal grants or other payments from a non-budgetary General Fund source.

"Transportation Trust Fund debt obligations" includes all debt obligations of the Delaware Transportation Authority, including all obligations extending beyond one year with respect to the lease, occupancy or acquisition of property which are incurred in connection with debt financing transactions (for example, certificates of participation), and which in any case are payable from the Trust Fund. Trust Fund debt obligations do not include any obligations to the extent that the debt service with respect thereto is reasonably expected to be offset (as determined by the Secretary of Finance) by lease payments, user fees, federal grants or other payments from a non-State source.

## General Obligation Debt

The table on the following page reflects the outstanding general obligation debt of the State as of June 30, 2004, of which a portion is supported by budgetary General Fund revenue and a portion of which is supported by budgetary Special Funds.

**Outstanding General Obligation Debt**

Expressed in Millions)

| | | |
|---|---|---|
| General Obligation Debt Supported by Budgetary General Fund Revenue | | |
| State Facilities | $ 490.6 | |
| School Facilities ( State Share) | 247.1 | |
| Subtotal | | $ 737.7 |
| General Obligation Debt Supported by Budgetary Special Funds | | |
| Highway and Other Transportation Improvements | $ 3.7 | |
| School Facilities (Local Share) | 270.5 | |
| Housing Authority Loans | 0.6 | |
| Subtotal | | 274.9 |
| Total General Obligation Debt Outstanding | | $ 1,012.6 |

## Debt Burden Comparison

The State's general obligation debt is $1,012.6 million as of June 30, 2004. Approximately 80% of the debt is scheduled to mature within ten years and approximately 93% is scheduled to mature within fifteen years. Total general obligation debt per capita is $1,221 as of June 30, 2004.

The following table outlines the State's outstanding general obligation debt balance and bond ratings and demonstrates the changes in the State's general obligation debt burden since fiscal year 1995.

**Ratio of Annual General Obligation Debt Service to Total Revenues and Expenditures All Governmental Funds**

(Expressed in Thousands)

| Fiscal Year | Total Debt Service | Total Revenues | Ratio of Debt Service to Total Revenues | Total Expenditures | Ratio of Debit Service to Total Expenditures |
|---|---|---|---|---|---|
| 1995 | $ 94,217 | $ 3,017,669 | 3.1 % | $ 2,965,053 | 3.2 % |
| 1996 | 92,564 | 3,195,956 | 2.9 | 3,231,971 | 2.9 |
| 1997 | 92,374 | 3,295,045 | 2.8 | 3,393,605 | 2.7 |
| 1998 | 103,876 | 3,650,992 | 2.8 | 3,615,570 | 2.9 |
| 1999 | 109,990 | 3,843,884 | 2.9 | 4,118,640 | 2.7 |
| 2000 | 116,935 | 4,097,789 | 2.9 | 4,372,597 | 2.7 |
| 2001 | 120,443 | 4,248,984 | 2.8 | 4,620,134 | 2.6 |
| 2002 | 113,664 | 3,570,217 | 3.2 | 4,093,202 | 2.8 |
| 2003 | 117,755 | 3,747,696 | 3.1 | 4,186,966 | 2.8 |
| 2004 | 133,768 | 4,266,729 | 3.1 | 4,372,064 | 3.1 |

Source: Delaware's Comprehensive Annual Financial Report

**Ratio of General Obligation Bonded Debt Per Capita and**
**Debt as a Percentage of Personal Income**

(Expressed in Thousands)

| Fiscal Year | Population | | Total Principal Outstanding | Bonded Debt per Capita | Debt as % of Personal Income | Bond Ratings: Moody's | Bond Ratings: Standard & Poor's | Bond Ratings: Fitch Ratings |
|---|---|---|---|---|---|---|---|---|
| 1995 | 730 | | $ 561,685 | $ 769 | 3.1% | Aa1 | AA+ | |
| 1996 | 741 | | 572,956 | 773 | 3.0% | Aa1 | AA+ | |
| 1997 | 751 | | 654,676 | 872 | 3.3% | Aa1 | AA+ | |
| 1998 | 763 | | 686,116 | 899 | 3.1% | Aa1 | AA+ | |
| 1999 | 775 | | 720,171 | 929 | 3.2% | Aa1 | AA+ | |
| 2000 | 787 | | 738,176 | 938 | 3.0% | Aaa | AAA | AAA |
| 2001 | 797 | | 653,701 | 820 | 2.5% | Aaa | AAA | AAA |
| 2002 | 807 | | 709,958 | 880 | 2.7% | Aaa | AAA | AAA |
| 2003 | 818 | (1) | 854,262 | 1,044 | 3.2% | Aaa | AAA | AAA |
| 2004 | 829 | (1) | 1,012,544 | 1,221 | 3.7% | Aaa | AAA | AAA |

(1) Estimated - Assumes 1.3% growth.

Sources: U.S. Census Bureau and Delaware Department of Finance

## Revenue Bond Coverage

Oversight responsibility for the issuance of debt by the State and its authorities is centralized under the Secretary of Finance. The following table sets forth certain indebtedness of the Delaware Transportation Authority. Data for the State's Component Units – Delaware Housing Authority and Delaware State University is also outlined in the following tables. The State is not directly or contingently liable for any indebtedness of the Delaware State Housing Authority or the Delaware State University. Further information for these authorities may be found in the Notes to the Financial Statements, Revenue Bonds and Notes Payable.

**Delaware Transportation Authority**

(Expressed in Thousands)

| Fiscal Year | Gross Revenue | Direct Operating Expenses | Net Available for Debt Service | Debt Service Requirements | Coverage |
|---|---|---|---|---|---|
| 1995 | $ 227,800 | $ 86,600 | $ 141,200 | $ 67,100 | 2.10 % |
| 1996 | 229,771 | 95,859 | 133,912 | 67,704 | 1.98 |
| 1997 | 233,913 | 105,371 | 128,542 | 67,064 | 1.92 |
| 1998 | 254,887 | 119,428 | 135,459 | 61,761 | 2.19 |
| 1999 | 272,398 | 119,816 | 152,582 | 66,018 | 2.31 |
| 2000 | 284,167 | 118,739 | 165,432 | 66,139 | 2.50 |
| 2001 | 299,962 | 147,065 | 152,897 | 72,852 | 2.10 |
| 2002 | 297,894 | 140,940 | 156,954 | 74,834 | 2.10 |
| 2003 | 298,536 | 156,394 | 142,142 | 86,447 | 1.64 |
| 2004 | 314,205 | 177,545 | 136,660 | 75,848 | 1.80 |

Source: Delaware Department of Transportation

## Delaware State University

(Expressed in Thousands)

| Fiscal Year | Gross Revenue (1) | Direct Operating Expenses (2) | Net Available for Debt Service | Debt Service Requirements(3) | Coverage |
|---|---|---|---|---|---|
| 1995 | $ 20,138 | $ 16,905 | $ 3,233 | $ 1,087 | 2.97 % |
| 1996 | 21,043 | 18,756 | 2,287 | 1,381 | 1.66 |
| 1997 | 21,688 | 18,226 | 3,462 | 1,678 | 2.06 |
| 1998 | 23,702 | 19,770 | 3,932 | 1,665 | 2.36 |
| 1999 | 26,262 | 20,203 | 6,059 | 1,429 | 4.24 |
| 2000 | 29,899 | 14,757 | 15,142 | 864 | 17.53 |
| 2001 | 28,858 | 14,689 | 14,269 | 1,546 | 9.23 |
| 2002 | 32,170 | 15,447 | 16,723 | 1,614 | 10.36 |
| 2003 | 34,504 | 20,992 | 13,512 | 1,612 | 8.38 |
| 2004 | 39,091 | 24,104 | 14,987 | 2,390 | 6.27 |

(1) Gross revenues represent total revenues less State appropriations.

(2) Direct Operating Expenses represent total unrestricted educational and general expenditures less State appropriations.

(3) Debt Service Requirements for 2004 include the DSU Student Housing Foundation

Source: Delaware State University

## Delaware State Housing Authority

(Expressed in Thousands)

| Fiscal Year | | Gross Revenue * | Direct Operating Expenses | Net Available for Debt Service | Debt Service Requirements | Coverage | |
|---|---|---|---|---|---|---|---|
| 1995 | | $ 71,410 | $ 3,474 | $ 67,936 | $ 55,868 | 1.22 | % |
| 1996 | | 85,703 | 2,985 | 82,718 | 78,317 | 1.06 | |
| 1997 | | 76,155 | 2,831 | 73,324 | 75,881 | 0.97 | ** |
| 1998 | | 77,098 | 3,102 | 73,996 | 61,805 | 1.20 | |
| 1999 | | 80,079 | 1,825 | 78,254 | 77,961 | 1.00 | |
| 2000 | *** | 128,207 | 56,582 | 71,625 | 69,104 | 1.04 | |
| 2001 | | 106,381 | 34,772 | 71,609 | 67,091 | 1.07 | |
| 2002 | | 179,672 | 40,731 | 138,941 | 130,908 | 1.06 | |
| 2003 | | 143,526 | 43,370 | 100,156 | 88,786 | 1.13 | |
| 2004 | | 191,127 | 40,838 | 150,290 | 148,475 | 1.01 | |

* Gross revenue represents total operating revenues, interest income on investments, mortgage principal repayments and bond proceeds.

** Shortages are the result of timing differences between revenue receipts and actual date of debt service payments.

*** Reflects reclassification of federal special revenue funds to enterprise fund in fiscal 2000.

Source: Delaware State Housing Authority

# State of Delaware

## Comprehensive Annual Financial Report

## For the Year Ended June 30, 2004

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